



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

George E. Pataki  
Governor

Gregory V. Serio  
Superintendent

REPORT ON EXAMINATION  
OF THE  
SAUQUOIT VALLEY INSURANCE COMPANY  
AS OF  
DECEMBER 31, 2001

DATE OF REPORT:

FEBRUARY 7, 2003

EXAMINER:

GERARD FRANCO



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

George E. Pataki  
Governor

Gregory V. Serio  
Superintendent

February 7, 2003

Honorable Gregory V. Serio  
Superintendent of Insurance  
Albany, New York 12257

Pursuant to the requirements of the New York Insurance Law, and in compliance with the instructions contained in Appointment Number 21945 dated October 30, 2002, attached hereto, I have made an examination into the condition and affairs of the Sauquoit Valley Insurance Company as of December 31, 2001 and submit the following report thereon.

The examination was conducted at the Company's home office located at 10170 Roberts Road, Sauquoit, New York 13456.

Wherever the designations "the Company", or "SVIC" appear herein without qualification, they should be understood to indicate the Sauquoit Valley Insurance Company

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## 1. SCOPE OF EXAMINATION

The prior examination was conducted as of December 31, 1997. This examination covered the four year period from January 1, 1998 through December 31, 2001 and was limited in its scope to a review or audit of only those balance sheet items considered by the Department to require analysis, verification or description, including: invested assets, inter-company balances, loss and loss adjustment expense reserves and the provision for reinsurance. The examination included a review of income, disbursements and company records deemed necessary to accomplish such analysis or verification and utilized, to the extent considered appropriate, work performed by the Company's independent certified public accountants. Transactions occurring subsequent to this period were reviewed where deemed appropriate by the examiner.

A review was also made to ascertain what action was taken by the Company with regard to comments and recommendations contained in the prior report on examination.

This report is confined to financial statements and comments on those matters which involve departures from laws, regulations or rules, or which are deemed to require explanation or description.

## 2. DESCRIPTION OF COMPANY

The Sauquoit Valley Insurance Company was organized on February 21, 1878 for the purpose of transacting business as an assessment co-operative fire insurance company in Herkimer and Oneida Counties. The territorial limits were extended on January 1, 1987 to cover all the counties in the state excluding the counties of New York, Kings, Queens, Bronx and Richmond. The writing authority of the Company was also expanded from writing only fire coverage to the writing powers currently authorized and outlined under item 2(B), "Territory and Plan of Operation", in this report.

A. Management

Pursuant to the Company's charter and by-laws, management of the Company is vested in a board of directors consisting of not less than twelve nor more than fifteen members. As of the examination date, the board of directors was comprised of twelve members, divided into three equal groups, with one group being elected at each annual policyholders' meeting for a term of three years.

Each person insured by the Company is entitled to one vote in person or by proxy at each of its annual meetings. The annual meeting of the board of directors is held immediately after the annual meeting of the Company. The full board met four times each year for the period under examination, thereby complying with Section 6624 (b) of the New York Insurance Law.

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

<u>Director</u>	<u>Principal Business Affiliation</u>
Homer Casler West Winfield, NY	Vice-President, Sauquoit Valley Insurance Company
Dale Champion Deansboro, NY	Retired
Nicholas Crescenzo Utica, NY	Retired
Gordon Donahoe Frankfort, NY	Retired
Alfred C. Eisenhut Deansboro, NY	Retired employee-Sauquoit Valley Insurance Company
Leo Garrett Utica, NY	Retired
Scott T. Jeffers Oriskany Falls, NY	President, Sauquoit Valley Insurance Company

<u>Director</u>	<u>Principal Business Affiliation</u>
Homer Keith Waterville, NY	Retired
Sharon K. Linder Sauquoit, NY	Secretary-Treasurer, Sauquoit Valley Insurance Company
Melville Merry Frankfort, NY	Retired
Max Townsend Cassville, NY	Chairman of the Board, Sauquoit Valley Insurance Company
Alois Wrobel Bridgewater, NY	Retired

The minutes of all meetings of the Board of Directors' and committees thereof held during the examination period were reviewed. The average attendance by the board of directors during the examination period was approximately 85% with each individual directors' attendance being adequate at these meetings.

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

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

Chairman of the Board	Max Townsend
President	Scott T. Jeffers
Vice President	Homer Casler
Secretary-Treasurer	Sharon K. Linder

B. Territory and Plan of Operation

The following schedule shows direct premiums written by Sauquoit Valley Insurance Company in New York State for the examination period:

<u>Calendar Year</u>	<u>Total Direct Premium Written(000's)</u>
1998	\$ 1,035
1999	1,025
2000	1,033
2001	1,045

As of the examination date, the Company was authorized to transact the kinds of insurance as defined in the following numbered paragraphs of Section 1113 (a) of the New York Insurance Law:

<u>Paragraph</u>	<u>Kind of Business</u>
4	Fire
5	Miscellaneous property
6	Water damage
7	Burglary and theft
8	Glass
12	Collision
13	Personal injury liability
14	Property damage liability
15	Workers' compensation and employers' liability(employers' liability only)
19	Motor vehicle and aircraft physical damage
20	Marine(inland marine only)

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

The Company underwrites predominantly farmowners multiple peril and homeowners multiple peril lines of business, which accounted for 46% and 28%, respectively, of the 2001 net premium writings.

### C. Reinsurance

The Company had no assumed reinsurance premiums written as of December 31, 2001.

The Schedule F's as contained in the Company's annual statements filed for the years within the examination period were found to accurately reflect its reinsurance transactions.

The examiner reviewed all ceded reinsurance contracts effected during the examination period. These contracts, as endorsed during the examination, all contained the required standard clauses, including insolvency clauses, meeting the requirements of Section 1308 of the New York Insurance Law.

As of December 31, 2001, the Company had the following property and casualty combination excess of loss reinsurance program in place:

Property 2 layers	\$70,000 x/s \$30,000 ultimate net loss any one loss any one risk; subject to a further limit of \$210,000 on any one loss occurrence. \$400,000 x/s \$100,000 ultimate net loss any one loss any one risk.
Casualty 3 layers	\$970,000 x/s \$30,000 ultimate net loss any one loss occurrence.
Property catastrophe 3 layers	95% of \$900,000 x/s \$100,000 ultimate net loss each loss occurrence involving three or more risks.  100% x/s \$1,000,000 ultimate net loss each loss occurrence.
Aggregate	95% of \$500,000 of the aggregate net losses exceeding 94% of net earned premium income any one agreement year.

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

Property	The lesser of fifty percent (50%) of the gross liability or \$350,000 in respect of any property risk reinsured. Risks exceeding \$1,000,000 are underwritten on an offer and accept basis.
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It is noted the Company has increased its retention from \$25,000 to \$30,000 on its property business and from \$20,000 to \$30,000 on its casualty business. It is also noted that the Company, at December 31, 2001, was backed by an authorized reinsurer, as was the case in the previous examination.

D. Holding Company System

As of December 31, 2001, the Company was not a member of any holding company system. The Company was independent with no affiliation or pooling agreements in force at December 31, 2001.

E. Significant Operating Ratios

The following ratios have been computed as of December 31, 2001 based upon the results of this examination:

Net premiums written in 2001 to Surplus as regards policyholders	.24 to 1
Premiums in course of collection to Surplus as regards policyholders	.39%
Liabilities to cash and invested assets	23.86%

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

The underwriting ratios presented below are on an earned-incurred basis and encompass the four-year period, January 1, 1998 to December 31, 2001:

	<u>Amounts</u>	<u>Ratios</u>
Losses and Loss adjustment expenses	\$ 2,092,081	72.84%
Other underwriting expenses	1,014,874	35.34%
Net underwriting gain(loss)	<u>(234,983)</u>	<u>(8.18)%</u>
Premiums earned	<u>\$ 2,871,972</u>	<u>100.00%</u>

F. Abandoned Property

During the period covered by this examination, the Company maintained appropriate records of unclaimed funds as required by Section 1316 of the New York Abandoned Property Law. The abandoned property reports that were required to be filed with the State Comptroller, during the examination period, were done so in a timely manner.

G. Certificate of Designation by Insurer

It was determined from the review of the Company's currently filed Certificate of Designation by Insurer with the Insurance Department that the designated person on the form, as well as the officers who acted as witnesses are no longer employees of the Company. Section 1212 (a) of the New York Insurance

Law states that any change in the contact person must be filed in the office of the Superintendent. The Company has not filed any changes as of the examination date. It is recommended that the Company comply with Section 1212 (a) of the Insurance Law and file a new Certificate of Designation by Insurer naming a current employee as the proper contact person. It is noted that on December 19, 2002 the Company filed a new Certificate of Designation by Insurer with a current employee designed as the contact person.

#### H. Schedule P-Parts 5A and 5E

It is noted that the Company did not accurately report data on Schedule P-Parts 5A and 5E Section 3 Cumulative Number of Claims Reported Direct and Assumed. It is required by the annual statement instructions that Schedule P be completely and accurately filled out. The Company management, as well as the Company's CPA were made aware of the importance of this information. It is recommended that the Company follow the annual statement instructions and fill out Schedule P-Part 5 completely, so that accurate claim count numbers may be used in the calculation of loss and loss adjustment expense reserves.

#### I. Directors and Officers Liability

The Company's Directors and Officers Liability policy was found not to be in compliance with Regulation 110 (NYCRR Part 72.4). This regulation calls for the indemnification of the officers and directors through a minimum retention of \$ 2,000 individual and \$ 20,000 aggregate and a minimum coinsurance percentage of .2%. Although the minimum retentions are satisfied, the policy does not specify any coinsurance percentage. Therefore, it is recommended that the Company comply with both the minimum retention and coinsurance percentage required by Regulation 110 (NYCRR Part 72.4).

### 3. FINANCIAL STATEMENTS

#### A. Balance Sheet

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

<u>Assets</u>	Ledger <u>Assets</u>	Not Admitted <u>Assets</u>	Net Admitted <u>Assets</u>
Bonds	\$ 2,251,513	\$ -0-	\$ 2,251,513
Common Stocks	623,713	-0-	623,713
Real Estate	50,361	-0-	50,361
Cash and short term investments	417,910	-0-	417,910
Agents' balances or uncollected premiums	184,182	3,492	180,690
Federal and foreign income tax recoverable	21,171	-0-	21,171
Interest, dividends and real estate income due and accrued	39,977	-0-	39,977
Other assets nonadmitted	<u>34,444</u>	<u>34,444</u>	<u>-0-</u>
Total	<u>\$ 3,623,271</u>	<u>\$ 37,936</u>	<u>\$ 3,585,335</u>

#### Liabilities and Surplus

Losses and loss adjustment expenses		\$ 208,353
Other expenses		18,060
Unearned premiums		553,237
Ceded reinsurance premiums payable		24,907
Amounts withheld or retained by company for account of others		<u>464</u>
Total liabilities		\$ 805,021
Unassigned funds(surplus)	\$ 100,000	
Special contingent surplus	<u>2,680,314</u>	
Surplus as regards policyholders		<u>2,780,314</u>
Total		<u>\$ 3,585,335</u>

The Internal Revenue Service did not audit the Company's federal income tax returns during the period under examination. Audits covering subsequent tax years have yet to commence. Except for any impact that might result from the examination changes contained in this report, the examiner is unaware

of any potential exposure of the Company to any further tax assessment and no liability has been established herein relative to such contingency.

B. Underwriting and Investment Exhibit

Surplus as regards policyholders increased \$ 117,769 during the four-year examination period (January 1, 1998 through December 31, 2001) detailed as follows:

Statement of Income

Underwriting Income

Premiums earned		\$ 2,871,972
Losses and loss adjustment expenses incurred	\$ 2,092,081	
Other underwriting expenses incurred	<u>1,014,874</u>	
Total underwriting deductions		<u>3,106,955</u>
Net underwriting gain or (loss)		\$ (234,983)

Investment Income

Net investment income earned	\$ 426,761	
Net realized capital gain or (loss)	<u>74,300</u>	
Net investment gain		501,061

Other Income

Agents' balances charged off	\$ (6,243)	
Premiums received in advance	(73,330)	
Finance and service charge	<u>25,362</u>	
Total other income (loss)		<u>(54,211)</u>
Net income (loss) before federal income tax		\$ 211,867
Federal income taxes incurred		<u>114,229</u>
Net income(loss)		<u>\$ 97,638</u>

Capital and Surplus Account

Surplus as regards policyholders, December 31, 1997 per prior report on examination			\$ 2,662,545
	<u>Gains in Surplus</u>	<u>Losses in Surplus</u>	
Net income	\$ 97,638	\$-0-	
Net unrealized capital gain	9,908	-0-	
Change in non-admitted assets	<u>10,223</u>	<u>-0-</u>	
Totals	<u>\$117,769</u>	<u>-0-</u>	
Net increase in Surplus as regards policyholders			<u>117,769</u>
Surplus as regards policyholders, December 31, 2001, per report on examination			<u>\$ 2,780,314</u>

4. LOSSES AND LOSS ADJUSTMENT EXPENSES

The examination liability of \$208,353 is the same as the \$208,353 reported by the Company on its filed 2001 annual statement.

The Department's analysis was conducted in accordance with generally accepted actuarial principles and practices and was based on statistical information contained in the Company's internal records and in its filed annual statements.

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

5. MARKET CONDUCT ACTIVITIES

In the course of this examination, a review was made of the manner in which the Company conducts its business practices and fulfills its contractual obligations to policyholders and claimants. The review was general in nature and is not to be construed to encompass the generally more precise scope of a market conduct investigation.

The general review was directed at practices of the Company in the following areas:

- A. Sales and advertising
- B. Underwriting
- C. Rating
- D. Claims

It was found during the course of the examination that the Company was not giving ten days advance notice to mortgagees when an insurance policy was being cancelled at the insured's request. The New York Standard Mortgagee Clause, as reaffirmed by Department Circular Letter 17 of 1976, requires that such notice be given to mortgagees before their interest in such policies is cancelled. Thus, it is recommended that the Company comply with the provisions of the New York Standard Mortgagee Clause, henceforth, when canceling such policies containing same.

Claim files were reviewed for Company compliance with Regulation 64 (NYCRR Part 216.11). Although all information was contained in the files pertaining to the claim, the initial loss and loss adjustment expense reserves and any reinsurance applicable, as well as increases and decreases, could not be easily obtained. Therefore, it is recommended the Company comply with Regulation 64 (NYCRR Part 216.11) by organizing claim files in a manner that will enable Department personnel to reconstruct the reserving events in a more efficient way. It is noted the Company has, subsequent to the examination period, implemented a system whereby a form will be included in the claim files which shows the initial loss and loss adjustment reserves, any increases or decreases in reserves and all reinsurance information.

## 6. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

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

Item	Page No.
A. It is recommended that Mr. Brace should either improve his attendance or be replaced by the policyholders	5
The Company has complied with this recommendation	
B. It is recommended that director Sharon Linder comply with the Company by-laws and become a member of the Company	5
The Company has complied with this recommendation	
C. It is recommended that the Company follow the annual statement instructions by including call option data in future financial statements submitted to this Department	9
The Company has complied with this recommendation	
D. It is recommended that the Company follow the annual statement instructions and have the current CPA firm institute a program whereby the same partner will not have the responsibility of rendering a report on the same Company for seven consecutive years.	10
The Company has complied with this recommendation	
E. It is recommended that the Company prepare Schedule P-Part 5A in accordance with the annual statement instructions and include claim count information in each respective year in future financial statement submitted to this Department	10
See item H of this report	
F. It is recommended that the Company comply with Section 3425(h) of the New York Insurance Law and have proof of mailing for all notices of cancellations sent to mortgagees	16
The Company has complied with this recommendation	

## 7. SUMMARY OF COMMENTS AND RECOMMENDATIONS

As indicated in the body of this report, the Company should be directed to comply with the following:

<u>ITEM</u>	<u>PAGE NO.</u>
<u>A. Certificate of Designation by Insurer</u>	
It is recommended that the Company comply with Section 1212(a) of the Insurance Law and file a new Certificate of Designation by Insurer naming a current employee as the proper contact person.	8
<u>B. Schedule P-Parts 5A and 5E</u>	
It is recommended that the Company follow the annual statement instructions and fill out Schedule P-Part 5 completely, so that accurate claim count numbers may be used in the calculation of loss and loss adjustment expense reserves.	8
<u>C. Directors and Officers Liability</u>	
It is recommended that the Company comply with both the minimum retention and coinsurance percentage required by Regulation 110 (NYCRR Part 72.4).	8
<u>D. Market Conduct Activities</u>	
i. It is recommended that the Company comply with the provisions of the New York Standard Mortgagee Clause, henceforth, when canceling such policies containing same.	12
ii. It is recommended the Company comply with Regulation 64 (NYCRR Part 216.11) by organizing claim files in a manner that will enable Department personnel to reconstruct the reserving events in a more efficient way.	12

Respectfully submitted

*/s/*

Gerard L. Franco  
Senior Insurance Examiner

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

Gerard L. Franco, being duly sworn, deposes and says that the foregoing report, subscribed by him, is true to the best of his knowledge, information and belief.

*/s/*

Gerard L. Franco  
Senior Insurance Examiner

Sworn to before me this 21<sup>st</sup>  
day of February, 2003

*/s/*  
Notary Public

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

Appointment No 21945

STATE OF NEW YORK  
INSURANCE DEPARTMENT

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

**Gerard Franco**

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

**Sauquoit Valley Insurance Company**

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

**Company**

*with such other information as he shall deem requisite.*

*In Witness Whereof, I have hereunto subscribed by the name and affixed the official Seal of this Department, at the City of Albany,*

this 30th day of October 2002



  
GREGORY V. SERIO  
Superintendent of Insurance