



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

REPORT ON EXAMINATION
OF THE
WALTON COOPERATIVE FIRE INSURANCE COMPANY
AS OF
DECEMBER 31, 2000

DATE OF REPORT:

April 12, 2001

EXAMINER:

PHILIP VITULLO



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

April 12, 2001

Honorable Gregory V. Serio
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 21697 dated January 31, 2001, attached hereto, I have made an examination into the condition and affairs of the Walton Cooperative Fire Insurance Company as of December 31, 2000 and submit the following report thereon. The examination was conducted at the Company's home office located at 30750 State Highway 10 ,Walton, New York 13856.

Wherever the designations "the Company", or "WCFIC" appear herein without qualification, they should be understood to indicate the Walton Cooperative Fire Insurance Company.

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1. SCOPE OF EXAMINATION

The prior examination was conducted as of December 31, 1995. This examination covered the five year period from January 1, 1996 through December 31, 2000 and was limited in its scope to a review or audit of only those balance sheet items considered by this Department to require analysis, verification or description, including: invested assets, intercompany 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.

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

2. DESCRIPTION OF COMPANY

The Company was organized on October 20, 1888 for the purpose of transacting business as an assessment co-operative fire insurance company in the Town of Walton, Delaware County, New York.

The current license, issued December 12, 1986, authorizes the Company to transact business within the entire County of Delaware, in this state.

A. Management

Pursuant to the Company's charter and by-laws, management of the Company is vested in a board of directors consisting of not less than eleven nor more than fifteen members. As of December 31, 2000, the board of directors was comprised of thirteen members. The board meets twelve times during each calendar year. The directors as of December 31, 2000 were as follows:

<u>Director</u>	<u>Principal Business Affiliation</u>
Joseph J. Augustine Walton, NY	Retired
Matthew Batson Walton, NY	Self-employed
Harry J. Constable (E) Walton, NY	Retired farmer
James C. Curtin Walton, NY	Contractor
Brenda Gladstone (E) East Meredith, NY	Secretary/Treasurer
Pamela Howland Walton, NY	Teacher's Aide
Marilynn C. Lewis Walton, NY	Florist
Eleanor C. MacGibbon (E) Walton, NY	Retired
Mark W. MacGibbon Walton, NY	Agway Salesman
Arlene McClenon (E) Walton, NY	Retired Farmer
Gordon Mead Sidney Center, NY	Contractor
Selinda M. Taggart Walton, NY	Dental Hygienist
Niles Wilson (E) Walton, NY	Contractor

(E) denotes member of executive committee.

The minutes of all meetings of the Board of Director's and committees thereof held during the examination period were reviewed. Our review indicated that all of the meetings were well attended. Each of the directors had a satisfactory attendance record for the board meetings held during this examination period.

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

President	Harry Constable
Vice President	Niles Wilson
Secretary/Treasurer	Brenda Gladstone
Asst. Secretary/Treasurer	Eleanor MacGibbon

B. Territory and Plan of Operation

The Company is licensed to transact business in Delaware County, only.

<u>Calendar Year</u>	<u>Direct Premium Written</u>
1996	68,211
1997	69,714
1998	69,765
1999	71,996
2000	71,890

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

Policies are issued by the Company for a term of three (3) years, with applications being received and inspections made by the Company's director-agents. Assessments are collected at the home office of the Company.

Based upon 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.

C. Reinsurance

The Company had no assumed business at year-end 2000.

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, except as noted below.

For each year under examination, The Company did not complete Part 3 of Schedule F. The Company reported ceded premiums on Part 2b of the Underwriting and Investment Exhibit at year-end December 31, 1996 to December 31, 2000. The corresponding amounts to be found in Part 3 of Schedule F were omitted from such schedule. For each year under examination, the other parts of Schedule F did not apply.

The Company was advised during the examination that they should be completing Part 3 of Schedule F when they have cessions.

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

As of December 31, 2000, the Company had the following Property Excess of Loss reinsurance program in place:

Property	\$70,000 x/s of \$14,000 each risk, each occurrence.
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Also in effect is a property specified catastrophe perils provision which allows for 100% reimbursement of the ultimate net loss sustained by the Company for losses caused by windstorm, hail, tornado, cyclone, flood, earthquake or volcanic eruption.

The Company also has an agreement with four other insurers stipulating that, when the retention of WCFIC has been exceeded, the risk will be divided among all the participating insurers on an agreed upon percentage basis. In addition, the Company has a second agreement whereby one of these insurers

will write the entire liability portion of a homeowners or farmowners policy when written by WCFIC, and part of the property portion.

All of the Company's cessions during the period under examination were to authorized reinsurers.

All addendum's and reinsurance contracts that became effective during the period under examination were submitted to the Department for review in accordance with Section 1308(e) of the New York Insurance Law.

D. Holding Company System

The company was not a member of any holding company system at December 31,2000.

E. Significant Operating Ratios

The following ratios have been computed as of December 31, 2000 based upon the results of this examination:

Net premiums written in 2000 to Surplus as regards policyholders	.11 to 1
Liabilities to cash and invested assets	3.34%
Investment Yield	8.39%

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 five-year period, January 1, 1996 to December 31, 2000:

	<u>Amounts</u>	<u>Ratios</u>
Losses and loss adjustment expenses	\$66,237	29.46%
Other underwriting expenses	200,689	89.26%
Net underwriting gain (loss)	<u>(42,095)</u>	<u>(18.72)%</u>
Premiums earned	<u>\$224,831</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 Company filed all required abandoned property reports with the State Comptroller in a timely manner during the examination period.

G. Cash

Section 6611(a)(4)(C) of the New York Insurance Law, provides that all checks issued by an assessment cooperative must be signed either by two officers or by one officer upon the written order of another officer. The board of directors of an assessment cooperative may adopt a resolution for the handling of miscellaneous expenses to permit checks to be signed by one officer. During the course of this examination, the cash procedures of the Company were reviewed. As a result of such review, it was discovered that one of the officers of the Company signs blank checks. These checks are used for the payment of operating expenses and losses. Also as a result of our review, it was discovered that the board of directors of the Company has not adopted a resolution for the handling of miscellaneous expenses to permit checks to be signed by one officer.

Inasmuch as the Company has not adopted a resolution to permit checks to be signed by one officer, all checks must be signed by two officers to comply with Section 6611(a)(4)(C) of the Insurance Law. The Department has determined that the signing of blank checks by an officer of the Company is a circumvention of the aforementioned Section 6611(a)(4)(C) of the Insurance Law. It is therefore recommended that the officers of the Company discontinue signing blank checks to comply with Section 6611(a)(4)(C) of the New York Insurance Law.

3. FINANCIAL STATEMENTS

A. Balance sheet

The following shows the assets, liabilities and surplus as regards policyholders as determined by this examination as of December 31, 2000. This statement is the same as the balance sheet filed by the Company.

	<u>Examination</u>		<u>Company</u>	
	<u>Ledger</u> <u>Assets</u>	<u>Non-Ledger</u> <u>Assets</u>	<u>Not Admitted</u> <u>Assets</u>	<u>Net Admitted</u> <u>Assets</u>
Bonds	\$184,711	\$4,521	\$-0-	\$189,232
Preferred Stock	5,000	-0-	-0-	5,000
Common Stock	95,568	(11,042)	-0-	84,526
Cash and short term investments	319,827	-0-	-0-	319,827
Other Assets	<u>5,000</u>	<u>-0-</u>	<u>-0-</u>	<u>5,000</u>
Total	<u>\$610,106</u>	<u>\$(6,521)</u>	<u>\$-0-</u>	<u>\$603,585</u>

Liabilities and Surplus

Losses		\$ 2,000
Unearned premiums		<u>17,972</u>
Total liabilities		\$ 19,972
Required surplus	100,000	
Unassigned funds (surplus)	<u>483,613</u>	
Surplus as regards policyholders		\$583,613
Total		<u>\$603,585</u>

The Internal Revenue Service has not performed an audit of the Company's federal income tax returns for any tax year during the examination period.

B. Underwriting and Investment Exhibit

Surplus as regards policyholders increased \$112,535 during the four-year examination period, (January 1, 1996 through December 31, 2000) detailed as follows:

Statement of Income

Underwriting Income

Premiums earned		\$224,831
Losses and loss adjustment expenses incurred	\$66,237	
Other underwriting expenses incurred	<u>200,689</u>	
Total underwriting deductions		<u>(266,926)</u>
Net underwriting gain or (loss)		\$(42,095)

Investment Income

Net investment income earned	\$154,420	
Net realized capital gain or (loss)	<u>210</u>	
Net income gain		154,630
Net income (loss)		<u>\$112,535</u>

Capital and Surplus Account

Surplus as regards policyholders, December 31, 1995 per prior report on examination		\$471,078
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	<u>Gains in Surplus</u>	<u>Losses in Surplus</u>
Net income	<u>\$112,535</u>	<u>\$0</u>
Totals	<u>\$112,535</u>	<u>\$0</u>

Net increase in Surplus as regards policyholders		<u>112,535</u>
Surplus as regards policyholders, December 31, 2000, per report on examination		<u>\$583,613</u>

4. LOSS AND LOSS ADJUSTMENT EXPENSES

The examination liability of \$2,000 is the same amount reported by the Company in its filed 2000 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. It appears that the Company's loss and loss adjustment expense reserves were adequate as of December 31, 2000.

5. MARKET CONDUCT ACTIVITIES

In the course of this examination, a review was made of the manner in which the Company conducts its business and fulfills its contractual obligations to policyholders and claimants. The review was general in nature and it 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 major areas:

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

In the review of cancellations, it was noted by the examiner that the Company failed to give mortgagees ten days advance notice that an insurance policy was being cancelled at the request of the insured. The New York Standard Mortgage Clause, as interpreted by Department Circular Letter No. 17 of 1976, requires that such notice be given to mortgagees before their interest in such policies is cancelled. Therefore, it is recommended that the Company comply with the requirements of The New York Standard Mortgage Clause, as interpreted by Department Circular Letter No. 17 of 1976, by giving mortgagees ten days advance notice of cancellation upon the insured's request. A similar recommendation was made in the previous report on examination.

6. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

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

<u>Item</u>	<u>Page No.</u>
A. The Company should comply with Section 1409(a) of the New York Insurance Law by not investing more than 10% of its admitted assets in one institution, henceforth. The Company has complied with this recommendation,	8
B. The Company should establish an adequate reserve for incurred but not reported losses in future financial statements filed with this Department The Company has complied with this recommendation.	13
C. The Company should include an appropriate reserve for loss adjustment expenses in future financial statements filed with this Department The Company has complied with this recommendation.	14
D. The Company should comply with Circular Letter No. 17 of 1976 and give Mortgagees ten days advance notice of cancellation upon the insured's Request. The Company has not complied with this recommendation. See section 5 of this report.	15
E. The Company should comply with Section 3444 of the New York Insurance Law and Circular Letter No. 19 of 1994 by including the one time flood notice on new and renewal homeowners and dwelling fire policies. The Company has complied with this recommendation	15

7. SUMMARY OF COMMENTS AND RECOMMENDATIONS

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

Item

Page No.

A. Cash

It is recommended that officers of the Company discontinue signing blank checks to comply with Section 6611(a)(4)(C) of the New York Insurance Law.

B. Market Conduct Activities

The Company should comply with Circular Letter No. 17 of 1976 and give Mortgagees ten days advance notice of cancellation upon the insured's request. A similar recommendation was made in the previous report on examination.

Appointment No 21697

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:

Philip D. Vitullo

as proper person to examine into the affairs of the

Walton Cooperative Fire Insurance Company

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

Company

with such other information as he shall deem requisite.

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

this 31st day of January, 2001



A handwritten signature in cursive script, appearing to read "Gregory V. Serio", is written over a horizontal line.

GREGORY V. SERIO
First Deputy Superintendent of Insurance