

REPORT ON EXAMINATION

OF

NEW YORK SCHOOLS INSURANCE RECIPROCAL

AS OF

DECEMBER 31, 2015

DATE OF REPORT

JUNE 16, 2017

EXAMINER

TEENA JOSEPH

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## Department of Financial Services

ANDREW M. CUOMO  
Governor

LINDA A. LACEWELL  
Acting Superintendent

February 6, 2019

Honorable Linda A. Lacewell  
Acting Superintendent  
New York State Department of Financial Services  
Albany, New York 12257

Madam:

Pursuant to the requirements of the New York Insurance Law, and in compliance with the instructions contained in Appointment Number 31544 dated October 31, 2016, attached hereto, I have made an examination into the condition and affairs of New York Schools Insurance Reciprocal as of December 31, 2015, and submit the following report thereon.

Wherever the designations “the Reciprocal” or “NYSIR” appear herein without qualification, they should be understood to indicate 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.

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 offices of Brown and Brown Inc., the company that acquired the Reciprocal’s manager (WRM), located at 333 Earle Ovington Boulevard, Uniondale, New York 11553.

## 1. SCOPE OF EXAMINATION

The Department has performed a single state examination of New York Schools Insurance Reciprocal. The previous examination was conducted as of December 31, 2011. This examination covered the four-year period from January 1, 2012 through December 31, 2015. 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 current and prospective risks of the Reciprocal by obtaining information about the Reciprocal including corporate governance, identifying and assessing inherent risks within the Reciprocal 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 New York Laws, statutory accounting principles, and annual statement instructions when applicable to domestic state regulations.

All financially significant accounts and activities of the Reciprocal were considered in accordance with the risk-focused examination process. This examination also included a review and evaluation of the Reciprocal’s internal control environment. The examiners also relied upon audit work performed by the Reciprocal’s independent public accountants where deemed appropriate.

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

- Reciprocal history
- Management and control
- Territory and plan of operation
- Reinsurance
- Loss review and analysis
- Financial statement presentation
- Summary of recommendations

A review was also 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 that involve departures from laws, regulations or rules, or that are deemed to require explanation or description.

## 2. DESCRIPTION OF RECIPROCAL

The New York Schools Insurance Reciprocal is a reciprocal insurer, as defined in Section 107(a)(37) of the New York Insurance Law and was organized pursuant to the provisions of Article 61 of the New York Insurance Law. As promulgated by Section 6102(b) of the New York Insurance Law, the Superintendent approved the declaration creating a school reciprocal on March 29, 1989. The Reciprocal was licensed on June 30, 1989 and commenced operations on July 1, 1989.

NYSIR is comprised of a group of insureds referred to as “subscribers,” who agree to insure each other’s risk. The Reciprocal was organized to provide a market source for New York State public school districts and board of cooperative education services (“BOCES”) organized and existing under the Education Law of the State of New York. The Reciprocal’s policyholders engage in the business of inter-insurance on the reciprocal plan, through an attorney-in-fact. The policyholders share proportionately in all losses, expenses, and profits of the reciprocal, based on the percentage that their premium represents to the total written premiums of the Reciprocal. The New York Schools Insurance Foundation, Inc. serves as the attorney-in-fact for NYSIR, and has retained WRM as Manager through a management agreement. In 2014, Brown and Brown, Inc., a Florida based national insurance broker, acquired WRM. Due to the composition of the Reciprocal, it is exempt from both federal and state income tax under Section 115 of the Internal Revenue Code.

In accordance with Section 6102(b)(12) of the New York Insurance Law, the Reciprocal has elected not to be covered by the Property/Casualty Insurance Security Fund under Article 76 of the New York Insurance Law. As a result, each policy issued by the Reciprocal must disclose this lack of coverage. Accordingly, the Reciprocal issues assessable policies, which will provide for unlimited contingent several liabilities for assessment of its subscribers.

### A. Corporate Governance

Pursuant to the declaration executed by the Superintendent, and Section 6102 of the New York Insurance Law, a board of governors was elected on behalf of the subscribers with powers to supervise and control the attorney-in-fact and to control investment of the Reciprocal’s assets, along with such powers as may be conferred by the by-laws and subscribers’ agreement. The by-laws and subscribers’ agreement specify that the board of governors shall not be fewer than nine members. The board meets four times during each calendar year. At December 31, 2015, the board of governors was comprised of the following twenty-three members:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
John Joseph Belmonte Holbrook, NY	Assistant Superintendent for Business, Sayville Union Free School District (“UFSD”)
Kwame Boakye-Yiadom Johnstown, NY	Associate Superintendent for Business, Hamilton Fulton Montgomery BOCES
Jennifer Elizabeth Bolton-Carls Cooperstown, NY	Deputy Superintendent, Otsego Northern Catskills BOCES
Julie Kay Bresett Norwood, NY	Business Official, Madrid – Waddington Central School District (“CSD”)
Janet May Bryan Islandia, NY	Assistant Superintendent for District Operations, Longwood CSD
Sharon Lee Cihocki Boonville, NY	Business Administrator, Adirondack CSD
William John Furlong Cazenovia, NY	Assistant Superintendent for Business, North Colonie CSD
Nancy Jane Henner Sterling, NY	Business Administrator, Hannibal CSD
Deborah Ann Heppes Goshen, NY	Assistant Superintendent for Finance, Orange – Ulster BOCES
Steven Victor Hubbard Camillus, NY	Superintendent, Cincinnatus Central School District
James Bernard Johnston Ormond Beach, FL	Assistant Superintendent for Business, Haverstraw – Stony Point CSD
Darrin Thomas Kenney Brockport, NY	Assistant Superintendent for Business, Pittsford CSD
Kishore Kuncham North Bellmore, NY	Superintendent, Freeport Public Schools
Richard Alan Linden Hopewell Junction, NY	Assistant Superintendent for Business, New Paltz CSD
Stephen James Lunden Middleport, NY	Assistant Superintendent – Administrative Services, Cheektowaga – Maryvale UFSD
Anne Marie Marrone-Caliendo Commack, NY	Assistant Superintendent for Finance & Facilities, Half Hollow Hills CSD

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Jeffrey Keith Martin Katonah, NY	Business Manager, Scarsdale UFSD
Carleen Millsaps Wallkill, NY	Assistant Superintendent for Business, Nyack UFSD
Gayle Lou Sedlack Watkins Glen, NY	Business Official, Watkins Glen CSD
John Joseph Staiger Wallkill, NY	Assistant Superintendent for Business, Tarrytown UFSD
Eric Mitchell Stark Redding, CT	Assistant Superintendent for Business, Carmel CSD
Peter Joshua Weber Smithtown, NY	Assistant Superintendent for Business, Hewlett – Woodmere UFSD
Timothy Paul Whipple Malone, NY	Business Administrator, Malone CSD

A review of the minutes of the board of governors' 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, 2015, the principal officers of the Reciprocal were as follows:

<u>Name</u>	<u>Title</u>
Carleen Millsaps	President
Stephen James Lunden	Secretary
William John Furlong	Vice President
Richard Alan Linden	Vice President

#### Conflict of Interest Policy

The Reciprocal has a conflict of interest policy in place for its board of governors and key employees. However, the board of governors did not complete nor sign conflict of interest statements for two out of the four years under examination. An effective conflict of interest policy is important to provide a safeguard for the activities and the assets of the Reciprocal by requiring individuals to disclose any interest in outside activities where a conflict or perceived conflict may arise.

It is recommended that the Reciprocal implement the necessary procedures to ensure that all board members and key employees sign and complete conflict of interest statements on an annual basis and retain such statements in its files.

It is further recommended that the completed and signed conflict of interest statements be provided to the Reciprocal's board of governors, and that the review of such statements be acknowledged in the minutes to the board of governors' meetings.

### Management Agreement

Effective July 1, 2014, WRM, the Reciprocal and its attorney-in-fact, renewed the 2008 management agreement until June 30, 2018. Pursuant to the terms of the agreement, WRM manages the operations and affairs of the Reciprocal and supplies all personnel and resources necessary to perform underwriting services, subscriber services, marketing and subscriber development services, risk management services, claims services, accounting services, communication with regulatory authorities and NYSIR, information technology services and outside consultant services. The agreement also states that WRM shall receive a fee of \$6,772,271.02 until December 31, 2014 and commencing January 1, 2015, the fee shall be 13% of the Reciprocal's gross written premium less any reduction to the base fee due to deletion of certain services in accordance with section 2 of Article IV of the agreement.

### B. Territory and Plan of Operation

The Reciprocal was licensed to write business only in New York State pursuant to Article 61 of the New York Insurance Law.

As of the examination date, the Reciprocal 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>Line of Business</u>
4	Fire
5	Miscellaneous property
6	Water damage
7	Burglary and theft
8	Glass
9	Boiler and machinery
10	Elevator
12	Collision
13	Personal injury liability
14	Property damage liability

19	Motor vehicle and aircraft physical damage
20	Marine and inland marine
29	Legal services

Based on the lines of business for which the Reciprocal is licensed and pursuant to the requirements of Articles 13 and 61 of the New York Insurance Law, the Reciprocal is required to maintain a minimum surplus to policyholders in the amount of \$1,800,000.

NYSIR primarily writes general liability, auto liability and physical damage, school board legal liability, excess umbrella liability, and fire and allied lines, including theft, boiler and machinery and inland marine coverages. The Reciprocal's business is produced through brokers and agents. The Reciprocal markets its business in the southern, northern and western parts of New York State. By statute, the Reciprocal is prohibited from underwriting in the five largest school systems: New York City, Buffalo, Rochester, Syracuse, and Yonkers.

The following schedule shows the direct premiums written by the Reciprocal for the period under examination:

<u>Calendar Year</u>	<u>Direct Premiums</u>
2012	\$83,928,395
2013	\$87,349,144
2014	\$91,430,104
2015	\$93,280,207

C. Reinsurance

Assumed

As of December 31, 2015, the Reciprocal did not assume any reinsurance.

Ceded

The Reciprocal has structured its ceded reinsurance program as follows:

Type of CoverageCessionPropertyProperty Facultative Excess of Loss Reinsurance

Limit of \$400,000,000 blanket per risk or occurrence excess of \$1,000,000 per occurrence, plus an additional 5% share of the next \$10,000,000 or \$500,000 for a maximum retention of \$1,500,000 per occurrence. A separate retention of \$5,000,000 per occurrence applies to a Named Wind Storm as named by National Oceanic & Atmospheric Administration (NOAA).

Seven Layers as follows:

\$400,000,000 excess of \$1,500,000 per risk

Layer 1 – 84.5% authorized  
 Layer 2 – 82.0% authorized  
 Layer 3 – 95.5% authorized  
 Layer 4 – 64.5% authorized  
 Layer 5 – 91.5% authorized  
 Layers 6 and 7 – 45.0% authorized

Property & Violent Event Terrorism Excess of Loss Reinsurance

Terrorism Limit of \$150,000,000 per occurrence and in the aggregate in excess of the retention of \$100,000.  
 Violent Event \$1,000,000 per occurrence per insured excess of the retention of \$100,000.

50.0% authorized

CasualtyEducation Excess Catastrophe Liability Quota Share Reinsurance

Underlying policies all have a \$1,000,000 limit

Two Layers as follows:

Layer 1 – 89.4% authorized  
 Layer 2 – 80% authorized

General Liability Section (I)

89.5% quota share participation of the Reciprocal's net retained liability as respects the first \$5,000,000 each occurrence, products/completed operation each occurrence, policy aggregate, and each person or organization personal and advertising injury.

Section (II)

87.5% quota share participation of the Reciprocal's net retained liability for a limit of \$20,000,000 in excess \$5,000,000 each occurrence, products/completed operation each occurrence, policy aggregate, and each person or organization personal and advertising injury.

AutomobileSection (I)

89.5% quota share participation of the Reciprocal's net retained liability as respects the first \$5,000,000 each occurrence.

Type of CoverageCessionSection (II)

87.5% quota share participation of the Reciprocal's net retained liability for a limit of \$20,000,000 in excess of \$5,000,000 each occurrence.

Schools Leaders' Errors and OmissionsSection (I)

89.5% quota share participation of the Reciprocal's net retained liability as respects the first \$5,000,000 each occurrence and policy aggregate.

Section (II)

87.5% quota share participation of the Reciprocal's net retained liability for limit of \$20,000,000 in excess \$5,000,000 each occurrence and policy aggregate.

Boiler and MachineryEquipment Breakdown (Boiler and Machinery) Excess of Loss Reinsurance

Limit of \$100,000,000 subject to a \$100,000 retention of the net loss for any one accident, subject to an annual aggregate retention of \$500,000.

100% authorized

Since the last report on examination, the Reciprocal increased the limit of its Property Facultative Excess of Loss Treaty from \$300,000,000 to \$400,000,000. Additionally, the Property & Violent Event Terrorism Excess of Loss Treaty was added. For its Education Excess Catastrophe Quota Share Treaty, the quota share cession increased from 72.5% to 89.5%. For its Equipment Breakdown Treaty, the limit increased from \$95,000,000 to \$100,000,000.

All significant ceded reinsurance agreements in effect as of the examination date were reviewed and found to contain the required clauses, including an insolvency clause meeting the requirements of Section 1308 of the New York Insurance Law.

It is the Reciprocal's policy to obtain the appropriate collateral for its cessions to unauthorized reinsurers. The examiner did not review these letters of credit for compliance with Department Regulation No. 133 since the amounts held under these letters of credit were not material.

Management has represented that all material ceded reinsurance agreements transfer both underwriting and timing risk as set forth in SSAP No. 62R. Representations were supported by appropriate risk transfer analyses and an attestation from the Reciprocal's Chief Executive Officer and Chief Financial

Officer pursuant to the NAIC Annual Statement Instructions. Additionally, examination review indicated that the Reciprocal was not a party to any finite reinsurance agreements.

D. Significant Ratios

The Reciprocal's operating ratios, computed as of December 31, 2015, fall within the benchmark ranges set forth in the Insurance Regulatory Information System of the National Association of Insurance Commissioners.

<u>Operating Ratios</u>	<u>Result</u>
Net premiums written to surplus as regards policyholders	39%
Liabilities to liquid assets (cash and invested assets less investments in affiliates)	47%
Two-year overall operating	82%

Underwriting Ratios

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

	<u>Amounts</u>	<u>Ratios</u>
Losses and loss adjustment expenses incurred	\$157,377,715	72.10%
Other underwriting expenses incurred	42,904,149	19.65
Net underwriting gain	<u>18,005,225</u>	<u>8.25</u>
Premiums earned	<u>\$218,287,089</u>	<u>100.00%</u>

The Reciprocal's reported risk based capital score ("RBC") was 1,041% at 12/31/15. The RBC is a measure of the minimum amount of capital appropriate for a reporting entity to support its overall business operations in consideration of its size and risk profile. An RBC of 200 or below can result in regulatory action.

E. Accounts and Records

1. Audit Committee

Pursuant to Part 89.2(c) of Department Regulation 118, the Reciprocal designated an audit committee. The finance committee acts as the audit committee. The audit committee members have changed

since the last examination. The Reciprocal did not notify the Department of the change in the membership of the committee within the timeframe required by Part 89.12(e) of Department Regulation 118, which states:

“The Company shall submit written notification to the superintendent of the selection of its audit committee within 30 days of the effective date of this Part and within 30 days of any change in membership of the audit committee. The notice shall include a description of the reason for the change.”

It is recommended that the Reciprocal provide written notification to superintendent within 30 days of any change in audit committee membership pursuant to Part 89.12(e) of Department Regulation 118.

## 2. CPA Engagement Letter

The Reciprocal’s engagement letter with its CPA firm does not include the required provision with regard to notification of adverse financial condition.

Part 89.8 of Department Regulation 118 states, in part:

“Every company required to furnish an annual audited financial report shall require the CPA to report, in writing, to the superintendent, the board of directors and the company’s audit committee within five business days of any determination by the CPA that the Company has materially misstated its financial condition...”

It is recommended that the Reciprocal require its CPA firm to amend the engagement letter to comply with Section 89.8 of Department Regulation 118. Subsequent to the examination date, and prior to the end of field work, the Reciprocal complied with this recommendation.

## 3. Non-compliance with Section 1411(a) of the New York Insurance Law

A review of the board of governors’ meetings indicated that the Reciprocal’s investments were discussed; however, there is no indication that the board of governors were provided with a listing of the Reciprocal’s investment transactions for review and approval. Section 1411(a) of the New York Insurance Law states:

“No domestic insurer shall make any loan or investment...unless authorized or approved by its board of directors or a committee thereof responsible for supervising or making such investment or loan. The committee’s minutes shall be recorded and a report submitted to the board of directors at its next meeting.”

It is recommended that the Reciprocal provide members of the board of governors, or a committee thereof, with a listing of the Reciprocal's investment transactions and have the minutes reflect that the members have reviewed and approved the Reciprocal's investments pursuant to Section 1411(a) of the New York Insurance Law. Additionally, a copy of the listing of the Reciprocal's investment transactions should be included as an addendum to the minutes of the meetings.

4. Board's Involvement in Reciprocal's Reserving Policy

The board of governors, or a committee thereof, is not provided with the Reciprocal's year-end actuarial report and is not involved in the overall reserving policy and methodology.

It is recommended that an annual presentation be made to the board members with regard to the Reciprocal's loss reserves that includes an explanation of the reserving policy and methodology. It is further recommended that the review of the actuarial report be reflected in the minutes to the board of governors' meetings.

5. Investment Advisory Agreement

Section 16(a) of the Investment Advisory Agreement states that the agreement was approved by the board of governors. However, the board of governors' meeting minutes did not indicate approval of the Investment Advisory Agreement.

It is recommended that the Reciprocal ensure that the Investment Advisory Agreement is approved by the board of governors and documented in the board of governors' meeting minutes.

6. Contract with Hannon & Associates

The Reciprocal contracts with Hannon & Associates for investigating cases involving suspected fraud activity. Hannon & Associates is responsible for reporting fraudulent insurance acts to the Insurance Frauds Bureau on behalf of the Reciprocal. The Reciprocal does not have a written contract with Hannon & Associates to ensure that all the terms of the Reciprocal's agreement are documented.

It is recommended that the Reciprocal have a written contract with Hannon & Associates, which documents the terms and conditions of the agreement, fees for services as well as the services provided. The contract should also include the procedure to report fraudulent insurance acts to the Department's Criminal Investigations Unit pursuant to Part 86.5 of Department Regulation 95.

7. Approval of Reinsurance Program

The board of governors discussed the Reciprocal's reinsurance program during the board meetings. However, the board of governors, or its committee thereof, did not approve the Reciprocal's reinsurance program.

It is recommended, as a best control practice, that the board of governors approve the reinsurance program and document the approval in the board of governors' minutes.

### 3. FINANCIAL STATEMENTS

#### A. Balance Sheet

The following shows the assets, liabilities and surplus as regards policyholders as of December 31, 2015 as reported by the Reciprocal:

<u>Assets</u>	<u>Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>
Bonds	\$200,251,458		\$200,251,458
Common stocks (stocks)	45,534,976		45,534,976
Cash, cash equivalents and short-term investments	10,730,274		10,730,274
Other invested assets	20,380,341	\$25,291	20,355,050
Investment income due and accrued	1,096,309		1,096,309
Uncollected premiums and agents' balances in the course of collection	507,952		507,952
Amounts recoverable from reinsurers	1,238,924		1,238,924
Fees	2,340		2,340
Receivables	<u>10,000</u>	<u>0</u>	<u>10,000</u>
Total assets	<u>\$279,752,574</u>	<u>\$25,291</u>	<u>\$279,727,283</u>
 <u>Liabilities, Surplus and Other Funds</u>			
<u>Liabilities</u>			
Losses and loss adjustment expenses			\$ 85,561,107
Other expenses (excluding taxes, licenses and fees)			949,219
Unearned premiums			30,997,902
Ceded reinsurance premiums payable (net of ceding commissions)			2,192,647
Funds held by company under reinsurance treaties			57,488
Provision for reinsurance			757,531
Loss/ALAE Payable			<u>183,267</u>
Total liabilities			\$120,699,161
 <u>Surplus and Other Funds</u>			
Unassigned funds (surplus)		\$159,028,122	
Surplus as regards policyholders			<u>159,028,122</u>
Total liabilities, surplus and other funds			<u>\$279,727,283</u>

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

B. Statement of Income

The net income for the examination period as reported by the Reciprocal was \$41,870,208 as detailed below:

Underwriting Income

Premiums earned		\$218,287,089
Deductions:		
Losses and loss adjustment expenses incurred	\$157,377,715	
Other underwriting expenses incurred	<u>42,904,149</u>	
Total underwriting deductions		<u>200,281,864</u>
Net underwriting gain or (loss)		\$ 18,005,225

Investment Income

Net investment income earned	\$ 19,016,164	
Net realized capital gain	<u>4,622,830</u>	
Net investment gain or (loss)		23,638,994

Other Income

Net gain or (loss) from agents' or premium balances charged off	\$ 69,584	
Aggregate write-ins for miscellaneous income	<u>156,405</u>	
Total other income or (loss)		<u>225,989</u>
Net income		\$ <u>41,870,208</u>

C. Capital and Surplus

Surplus as regards policyholders increased \$41,508,155 during the four-year examination period January 1, 2012 through December 31, 2015 as reported by the Reciprocal, detailed as follows:

Surplus as regards policyholders per Reciprocal as of December 31, 2011			\$117,519,967
	<u>Gain in Surplus</u>	<u>Losses in Surplus</u>	
Net income	\$41,870,208		
Net unrealized capital gains or (losses)	3,064,936		
Change in nonadmitted assets		\$ 25,292	
Change in provision for reinsurance		201,777	
Surplus adjustments paid in	<u>0</u>	<u>3,199,920</u>	
Total gains / losses	\$44,935,144	\$3,426,989	
Net increase (decrease) in surplus			<u>41,508,155</u>
Surplus as regards policyholders per Reciprocal as of December 31, 2015			<u>\$159,028,122</u>

D. Analysis of Changes to Surplus

Surplus as regards policyholders as of December 31, 2015 per filed annual statement			\$159,028,122
	<u>Surplus Increase</u>	<u>Surplus Decrease</u>	
Change in provision for reinsurance		\$1,242,000	
Net increase (decrease) in surplus			<u>(1,242,000)</u>
Surplus as regards policyholders as of December 31, 2015, after examination adjustments			<u>\$157,786,122</u>

**4. LOSSES AND LOSS ADJUSTMENT EXPENSES**

The examination liability for the captioned items of \$85,561,107 is the same as reported by the Reciprocal as of December 31, 2015. 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.

**5. PROVISION FOR REINSURANCE**

The examination liability for the captioned item of \$1,999,531 is \$1,242,000 more than the \$757,531 reported by the Reciprocal as of December 31, 2015.

As of the examination date, Ironshore Specialty Insurance Company (“Ironshore”) was not authorized to write business in the state of New York. However, NYSIR classified Ironshore as an authorized reinsurer in its 2015 filed annual statement, Schedule F – Part 3. Furthermore, NYSIR took a statutory credit of \$1.2 million for a cession to Ironshore, an unauthorized reinsurer, in violation of Department Regulation 20.

It is recommended that in the future the Reciprocal accurately prepare Schedule F, in accordance with the NAIC’s annual statement instructions.

It is also recommended that the Reciprocal only take statutory credit for reinsurance cessions to authorized insurers or accredited reinsurers, unless it receives collateral in accordance with Department Regulation 20.

## 6. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

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

<u>ITEM</u>	<u>PAGE NO.</u>
A. <u>Management</u>	
<u>Board of Governors</u>	
i. It was recommended that board members who are unable or unwilling to attend meetings consistently should resign or be replaced.	6
The Reciprocal has complied with this recommendation.	
<u>Conflict of Interest</u>	
ii. It was recommended that the Reciprocal put the necessary procedures in place to ensure that all of its board members and key employees sign completed conflict of interest statements consistently on an annual basis and retain such statements in its files.	7
The Reciprocal has not complied with this recommendation. A similar comment is made in this report.	
iii. It was recommended that the completed and signed conflict of interest statements be provided to the Reciprocal's board of governors and that the review of such statements be acknowledged in the minutes to the board of governors' meetings.	7
The Reciprocal has not complied with this recommendation. A similar comment is made in this report.	
<u>Section 312 of the New York Insurance Law</u>	
iv. It was recommended that the Reciprocal put the necessary procedures in place to ensure that the board of governors complies with Section 312 of the New York Insurance Law.	7
The Reciprocal has complied with this recommendation.	
B. <u>Accounts and Records</u>	
<u>Designation of an Audit Committee</u>	
i. It was recommended that the Reciprocal provide written notification to the superintendent of its selection of an audit committee and any subsequent changes thereto pursuant to the provisions of Part 89.12(e) of Department Regulation 118.	13

The Reciprocal has not complied with this recommendation. A similar comment is made in this report.

C. Risk Management and Internal Controls

Password Policy

- i. It was recommended that the Manager develop an automated password change system, which would prompt users to change their password at least quarterly, prevent passwords from being reused, and enable the employees to change their passwords themselves, rather than through the IT Manager. The Reciprocal's Manager has acknowledged the need to change its password policy and has set a target date for implementing these policy changes. 13

The Reciprocal has complied with this recommendation.

## **7. SUMMARY OF COMMENTS AND RECOMMENDATIONS**

<u>ITEM</u>	<u>PAGE NO.</u>
<p>A. <u>Corporate Governance</u></p>	
<p>i. It is recommended that the Reciprocal implement the necessary procedures to ensure that all board members and key employees sign and complete conflict of interest statements on an annual basis and retain such statements in its files.</p> <p style="padding-left: 40px;">This was a recommendation in the prior report on examination.</p>	6
<p>ii. It is recommended that the completed and signed conflict of interest statements be provided to the Reciprocal's board of governors, and that the review of such statements be acknowledged in the minutes to the board of governors' meetings.</p> <p style="padding-left: 40px;">This was a recommendation in the prior report on examination.</p>	6
<p>B. <u>Accounts and Records</u></p>	
<p>i. It is recommended that the Reciprocal provide written notification to the superintendent within 30 days of any change in audit committee membership pursuant to Part 89.12(e) of Department Regulation 118.</p> <p style="padding-left: 40px;">This was a recommendation in the prior report on examinations.</p>	11
<p>ii. It is recommended that the Reciprocal require its CPA firm to amend the engagement letter to comply with Section 89.8 of Department Regulation 118. Subsequent to the examination date, and prior to the end of field work, the Reciprocal complied with this recommendation.</p>	11
<p>iii. It is recommended that the Reciprocal provide the members of the board of governors, or a committee thereof, with a listing of the Reciprocal's investment transactions and have the minutes reflect that the members have reviewed and approved the Reciprocal's investments pursuant to Section 1411(a) of the New York Insurance Law. Additionally, a copy of the listing of the Reciprocal's investment transactions should be included as an addendum to the minutes of the meetings.</p>	12
<p>iv. It is recommended that an annual presentation be made to the board members with regard to the Reciprocal's loss reserves that includes an explanation of the reserving policy and methodology.</p>	12
<p>v. It is recommended that the review of the actuarial report be reflected in the minutes to the board of governors' meetings.</p>	12

- vi. It is recommended that the Reciprocal ensure that the Investment Advisory Agreement is approved by the board of governors and documented in the board of governors' meeting minutes. 12
  - vii. It is recommended that the Reciprocal have a written contract with Hannon & Associates, which documents the terms and conditions of the agreement, fees for the services as well as the services provided. The contract should also include the procedure to report fraudulent insurance acts to the Department's Criminal Investigations Unit pursuant to Part 86.5 of Department Regulation 95. 12
  - viii. It is recommended, as a best control practice, that the board of governors approve the reinsurance program and document the approval in the board of governors' minutes. 13
- C. Provision for Reinsurance
- i. It is recommended that in the future the Reciprocal accurately prepare Schedule F, in accordance with the NAIC's annual statement instructions. 17
  - ii. It is recommended that the Reciprocal only take statutory credit for reinsurance cessions to authorized insurers or accredited reinsurers, unless it receives collateral in accordance with Department Regulation 20. 17

Respectfully submitted,

\_\_\_\_\_/S/  
Teena Joseph  
Senior Insurance Examiner

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

Teena Joseph, being duly sworn, deposes and says that the foregoing report, subscribed by her, is true to the best of her knowledge and belief.

\_\_\_\_\_/S/  
Teena Joseph

Subscribed and sworn to before me  
this \_\_\_\_\_ day of \_\_\_\_\_, 2019.

**APPOINTMENT NO. 31544**

**NEW YORK STATE**

**DEPARTMENT OF FINANCIAL SERVICES**

I, **Maria T. Vullo**, 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:

**Teena Joseph**

as a proper person to examine the affairs of the

**New York Schools Insurance Reciprocal**

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

**COMPANY**

with such other information as she 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 31st day of October, 2016

**MARIA T. VULLO**  
Superintendent of Financial Services



By:

*Joan Riddell*

Joan Riddell  
Deputy Bureau Chief