

REPORT ON EXAMINATION

OF

BROOME CO-OPERATIVE INSURANCE COMPANY

AS OF

DECEMBER 31, 2017

DATE OF REPORT

JANUARY 4, 2019

EXAMINER

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Department of Financial Services

ANDREW M. CUOMO
Governor

LINDA A. LACEWELL
Acting Superintendent

April 24, 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 31795 dated June 27, 2018, attached hereto, I have made an examination into the condition and affairs of Broome Co-operative Insurance Company as of December 31, 2017, and submit the following report thereon.

Wherever the designation “the Company” appears herein without qualification, it should be understood to indicate Broome Co-operative Insurance Company.

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 Company’s administrative office located at 1923 Vestal Parkway East, Vestal, New York 13851.

1. SCOPE OF EXAMINATION

The Department has performed an examination of the Company, a single-state insurer. The previous examination was conducted as of December 31, 2012. This examination covered the five-year period from January 1, 2013 through December 31, 2017. 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 Company by obtaining information about the Company including corporate governance, identifying and assessing inherent risks within the Company 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.

This examination report includes, but is not limited to, the following:

- Company history
- Management and control
- Territory and plan of operation
- Reinsurance
- Loss review and analysis
- Financial statement presentation
- Significant subsequent events
- Summary of recommendations

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 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 COMPANY

The Company was incorporated under the laws of the State of New York as the Broome County Farmers' Fire Relief Association ("Association") on January 20, 1887 for the purpose of transacting the business as an assessment cooperative fire insurance association in Broome County of New York State.

In 1951, the Association merged with Broome County Patrons' Fire Relief Association of Whitney Point, New York and the surviving corporation resulting from said merger became the Broome County Co-operative Fire Insurance Company.

On March 27, 2002, approval was given by the Department for the Company to change its name from "Broome County Co-operative Fire Insurance Company to "Broome Co-operative Insurance Company."

A. Corporate Governance

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 seven nor more than ten members. The board meets four times during each calendar year. At December 31, 2017, the board of directors was comprised of the following seven members:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Kimberly S. Chidester Lisle, New York	Owner, Lakeside Bookkeeping & Tax Service.
J. Paul Cavatio Owego, New York	Owner, Agway Stores
Steven J. Coffey Binghamton, New York	President & CEO, Broome Co-operative Insurance Co.
Steven D. Contento Windsor, New York	Director, Ross Park Zoo
Clifford W. Crouch Bainbridge, New York	Assemblyman, New York State
Michael Decker Whitney Point, New York	Broker, ERA Decker Realty

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Debra K. Eaton-Turner Smithville Flats, New Jersey	Bank Manager, NBT Bank
Ralph E. Kelsey Endicott, New York	Retired, Tioga State Bank
Marc J. Palumbo Dryden, New York	Claims Adjuster, Larose & Palumbo Claim Service
Siobhan G. Davey Vestal, New York	Chief Operating Officer, Broome Co-operative Insurance Co.

At December 31, 2017, the principal officers of the Company were as follows:

<u>Name</u>	<u>Title</u>
Steven J. Coffey	President
Siobhan G. Davey	Chief Operating Officer
Ian T. Coffey	Vice President of Finance
Steven D. Contento	Secretary/Treasurer

B. Territory and Plan of Operation

At December 31, 2017, the Company was licensed to write business in New York only.

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

The Company is also licensed to accept and cede reinsurance provided in section 6606 of the New York Insurance Law.

Based upon the lines of business for which the Company is licensed and the Company's current capital structure, and pursuant to the requirements of Articles 13, 41 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 did not assume any business during the examination period. The following schedule shows the total gross premiums written by the Company for the period under examination:

<u>Calendar Year</u>	<u>Total Gross Premiums</u>
2013	\$6,928,222
2014	\$7,609,594
2015	\$7,599,302
2016	\$7,944,401
2017	\$7,997,528

The Company predominantly wrote homeowners (51.3 %) and commercial (39.9%) multiple peril in 2017. The Company's products and services are distributed through a network of seventy-three independent agents located in Southern tier, Central, and Western part of the New York State.

C. Reinsurance Ceded

The Company ceded \$1,158,000 and has a reinsurance recoverable of \$938,000 from reinsurers as reported in the Company's Schedule F.

The reinsurance treaties and arrangements principally consists of traditional reinsurance arrangements whereby the reinsurer assumes a portion of the losses for a cost. The reinsurance contracts cover property and casualty business and are as follows:

Type of Treaty

Cession

Property Excess of Loss
(3 layers) 100% authorized

\$850,000 excess of \$150,000 ultimate net loss, each loss, subject to a limit of liability to the reinsurer of \$2,550,000 each loss occurrence.

<u>Type of Treaty</u>	<u>Cession</u>
<u>Casualty Excess of Loss</u> (3 layers) 100% authorized	\$900,000 excess of \$100,000 ultimate net loss, each loss occurrence.
<u>Property and Casualty Combined</u> (1 layer) 100% authorized	\$150,000 excess of \$100,000 ultimate net loss each loss occurrence involving property and casualty loss.
<u>Casualty Clash Excess of Loss</u> (1 layer) 100% authorized	\$1,000,000 excess of \$1,000,000 ultimate net loss, each loss occurrence.
<u>Property Catastrophe Excess of Loss</u> (3 layers) 100% authorized	\$6,600,000 excess of \$400,000 ultimate net loss each loss, subject to a limit of liability to the reinsurer of \$13,200,000 for all loss occurrences during the term of the contract. No claim shall be covered unless the loss occurrence involves two or more risks insured or reinsured by the Company.

At December 31, 2017, the Company ceded one hundred percent of its boiler and machinery net retained liability.

The majority of the recoverable amounts reported on Schedule F – Part 3 are from Farmers Mutual Hail Insurance Co. of Iowa (41%), Renaissance Reinsurance US Inc. (22%) and QBE Reinsurance Corp. (11%), which are all authorized reinsurers.

All significant 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.

Examination review found that the Schedule F data reported by the Company in its filed annual statement accurately reflected its reinsurance transactions. Additionally, 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 an appropriate risk transfer analyses and an attestation from the Company's Chief Executive Officer and Chief Financial Officer pursuant to the NAIC Annual Statement Instructions. Additionally, examination review indicated that the Company was not a party to any finite reinsurance agreements. All ceded reinsurance agreements were accounted for utilizing reinsurance accounting as set forth in SSAP No. 62R.

D. Holding Company System

At December 31, 2017, the Company was not a member to a holding company system and did not have any affiliated or pooling agreements in force.

E. Significant Ratios

The Company's operating ratios, computed as of December 31, 2017, 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	46%
Liabilities to liquid assets (cash and invested assets less investments in affiliates)	34%
Two-year overall operating	82%

Underwriting Ratios

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

	<u>Amounts</u>	<u>Ratio</u>
Losses and loss adjustment expenses incurred	\$17,624,102	56.91%
Other underwriting expenses incurred	11,874,320	38.34%
Net underwriting gain	<u>1,469,631</u>	<u>4.75%</u>
Premiums earned	<u>\$30,968,053</u>	<u>100.00%</u>

The Company's reported risk based capital score ("RBC") was 1,716.9% at 12/31/2017. 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. There were no financial adjustments in this report that impacted the Company's RBC score.

3. FINANCIAL STATEMENTS

A. Balance Sheet

The following shows the assets, liabilities and surplus as regards policyholders as of December 31, 2017, as reported by the Company:

<u>Assets</u>	<u>Assets</u>	Assets Not Admitted	Net Admitted Assets
Bonds	\$14,913,294		\$14,913,294
Common stocks (stocks)	5,285,587		5,285,587
First liens - mortgage loans on real estate	1,028		1,028
Properties occupied by the company	795,841		795,841
Cash, cash equivalents and short-term investments	541,626		541,626
Company owned life insurance	64,180		64,180
Investment income due and accrued	99,387		99,387
Uncollected premiums and agents' balances in the course of collection	147,470	\$10,249	137,221
Deferred premiums, agents' balances and installments booked but deferred and not yet due	864,738		864,738
Amounts recoverable from reinsurers	85,625		85,625
Prepaid commissions	26,078	26,078	0
Cash corrections	<u>(5)</u>	<u>(5)</u>	<u>0</u>
Totals	<u>\$22,885,165</u>	<u>\$96,638</u>	<u>\$22,788,527</u>

Liabilities, Surplus and Other FundsLiabilities

Losses and loss adjustment expenses		\$3,100,547
Commissions payable, contingent commissions and other similar Charges		351,430
Other expenses (excluding taxes, licenses and fees)		205,358
Taxes, licenses and fees (excluding federal and foreign income taxes)		1,992
Current federal and foreign income taxes		14,562
Net deferred tax liability		70,590
Unearned premiums		4,060,945
Advance premium		146,760
Ceded reinsurance premiums payable (net of ceding commissions)		<u>(61,877)</u>
Total liabilities		\$7,890,237

Surplus and other funds

Unassigned funds (surplus)	\$14,898,289	
Surplus as regards policyholders		<u>14,898,289</u>
Total liabilities, surplus and other funds		<u>\$22,788,526</u>

Note: The Internal Revenue Service has not performed any audits of the examination years. The examiner is unaware of any potential exposure of the Company to any tax assessment and no liability has been established herein relative to such contingency.

B. Statement of Income

The net income for the examination period as reported by the Company was \$2,806,053 as detailed below:

Underwriting income

Premiums earned		\$30,968,053
Deductions:		
Losses and loss adjustment expenses incurred	\$17,624,102	
Other underwriting expenses incurred	<u>11,874,320</u>	
Total underwriting deductions		<u>29,498,422</u>
Net underwriting gain		\$ 1,469,631

Investment income

Net investment income earned	\$ 1,468,591	
Net realized capital gain or (loss)	<u>432,833</u>	
Net investment gain		1,901,424

Other income

Net gain or (loss) from agents' or premium balances charged off	\$ 10,148	
Finance and service charges not included in premiums	637,236	
Aggregate write-ins for miscellaneous income	<u>\$ (48,408)</u>	

Total other income		<u>598,976</u>
Net income before federal and foreign income taxes		\$ 3,970,031
Federal and foreign income taxes incurred		<u>1,109,978</u>
Net income		<u>\$2,860,053</u>

C. Capital and Surplus Account

Surplus as regards policyholders increased \$3,906,103 during the five-year examination period January 1, 2013 through December 31, 2017 as reported by the Company, detailed as follows:

Surplus as regards policyholders as reported by the Company as of December 31, 2012			\$ 10,992,186
	<u>Gains in Surplus</u>	<u>Losses in Surplus</u>	
Net income	\$2,860,053		
Net unrealized capital gains or (losses)	764,760		
Change in net deferred income tax	45,231		
Change in non-admitted assets	<u>236,059</u>		
Net increase in surplus	\$3,906,103		<u>\$ 3,906,103</u>
Surplus as regards policyholders as reported by the Company as of December 31, 2017			<u>\$14,898,289</u>

No adjustments were made to surplus as a result of this examination.

4. LOSSES AND LOSS ADJUSTMENT EXPENSES

The examination liability for the captioned items of \$3,100,547 is the same as reported by the Company as of December 31, 2017. 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”).

Significant reserves are concentrated in the following lines of business: Commercial multiple peril (56%), Homeowners multiple peril (39%) and Other Liability - Occurrence (2%) Other Liability - Occurrence consists of dwelling fire - liability.

5. 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>	
i. It is recommended that the Company implement control procedures to ensure that its funds are not used to pay for non-business-related expenses pursuant to Section 1217 of the New York Insurance Law, Section 715(h) of the Business Corporation Law and the Company's own Travel and Expense Policy.	5
The Company has complied with this recommendation.	
ii. It is recommended that the Company's board of directors review all corporate credit usage during the examination period and seek reimbursement of all expenses for which a specified business purpose is not demonstrated.	5
The Company has complied with this recommendation.	
iii. It is recommended that the Company comply with Section 6613(a) of the New York Insurance Law and monitor management expenses to ensure they do not exceed 42.5% of net premiums written.	6
The Company has complied with this recommendation.	
B. <u>Reinsurance</u>	
It is recommended that the Company comply with SSAP No. 62R, paragraph 8(d) by amending its reinsurance agreements to include all required terms.	9
The Company has complied with this recommendation.	
C. <u>Accounts and Records</u>	
i. It is recommended that the Company report its loss data to the correct lines of business on its filed annual statements pursuant to the NAIC Annual Statement Instructions.	10
The Company has complied with this recommendation.	
ii. It is recommended that the Company obtain all required forms prior to making claim payments pursuant to Regulation 21 and 96.	10
The Company has complied with this recommendation.	

6. SUMMARY OF COMMENTS AND RECOMMENDATIONS

This report on examination does not contain any comments or recommendations.

Respectfully submitted,

_____/S/
Sabu Cherian
Financial Services Examiner 2

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

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

_____/S/
Sabu Cherian

Subscribed and sworn to before me

this _____ day of _____, 2019.

APPOINTMENT NO. 31795

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:

Sabu Cherian

as a proper person to examine the affairs of the

Broome Co-operative Insurance Company

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 27th day of June, 2018

MARIA T. VULLO
Superintendent of Financial Services



By: *Joan P. Riddell*

Joan Riddell
Deputy Bureau Chief