

REPORT ON EXAMINATION

OF

ASSOCIATED MUTUAL INSURANCE COOPERATIVE

AS OF

DECEMBER 31, 2016

DATE OF REPORT

DECEMBER 20, 2017

EXAMINER

SHEIK H. MOHAMED

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Department of Financial Services

ANDREW M. CUOMO
Governor

LINDA A. LACEWELL
Acting Superintendent

April 22, 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 31645 dated July 10, 2017, attached hereto, I have made an examination into the condition and affairs of Associated Mutual Insurance Cooperative as of December 31, 2016, and submit the following report thereon.

Wherever the designation “the Company” appears herein without qualification, it should be understood to indicate Associated Mutual Insurance Cooperative.

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 39 Broadway, Woodridge, NY 12789.

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, 2011. This examination covered the five-year period from January 1, 2012 through December 31, 2016. 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.

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

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

- Company history
- Management and control
- Territory and plan of operation
- Holding company description
- Reinsurance
- Loss review and analysis
- Financial statement presentation
- 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 the surviving company of five closely related cooperatives. These companies were under the same management and were simultaneously consolidated and converted into one mutual fire insurance company on January 1, 1971. The first of the five cooperatives, known collectively as the Associated Cooperative Fire Insurance Companies of Sullivan and Adjoining Counties, began operations in 1913. The other cooperatives were organized later to enlarge their capacity to meet the growing requirements of their members.

On January 1, 1997, upon meeting the requirements of Section 7306(a) of the New York Insurance Law, the Company simultaneously reconverted into an assessment cooperative corporation, and then into an advance premium cooperative property/casualty insurance corporation. Also on January 1, 1997, the name of the corporation was changed to Associated Mutual Insurance Cooperative, with a new license issued to do property/casualty insurance business in the State of New York.

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 fifteen members. The board meets ten times during each calendar year. At December 31, 2016, the board of directors was comprised of the following eight members:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Daniel Berkowicz Loch Sheldrake, NY	Executive Director, Cooperative Federal Credit Union
Irwin Robert Gitlin Liberty, NY	Certified Public Accountant, Cooperative Federal Credit Union

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Robert Leonard Kaplan Woodridge, NY	Poultry Farmer, Cooperative Federal Credit Union
William Kevin Kerrigan Katonah, NY	Attorney
Zane Alan Morganstein Monticello, NY	Retired, Cooperative Federal Credit Union
Marvin Stanley Rappaport Forestburgh, NY	Retired, Crawford Public Library
Herman Rosh Middletown, NY	Insurance Agent
Robert Wong Rock Hill, NY	President, Associated Mutual Insurance Cooperative

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

As of December 31, 2016, the principal officers of the Company were as follows:

<u>Name</u>	<u>Title</u>
Robert Wong	President
Robert Leonard Kaplan	Secretary
Guy Ronald Jollie	Vice President of Finance
Irwin Robert Gitlin	Chairman

B. Territory and Plan of Operation

As of December 31, 2016, 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
10	Elevator
11	Animal
12	Collision
13	Personal injury liability
14	Property damage liability
19	Motor vehicle and aircraft physical damage
20	Marine and inland marine (inland only)

Based upon the lines of business for which the Company is licensed 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 \$475,000.

At December 31, 2016, the Company wrote insurance business through independent agents. The Company's predominate lines of business are commercial multiple peril and homeowners' multiple peril, which accounted for 63.99% and 32.36%, respectively, of the Company's 2016 direct written premium.

The Company writes business owners ("BO"), commercial multi-peril ("CMP") and homeowners ("HO") insurance in New York State. The Company focuses on BO and CMP coverages for small businesses, particularly those in the foodservice industry. Commercial lines business comprises approximately 60% of the Company's business. Since 2014, the Company has significantly grown its HO premiums to bring diversification to its overall book of business. During this period, HO premiums have grown from 5% of the Company's book of business to approximately 40%. The Company's HO product encompasses 1 and 2 family, owner-occupied dwellings. Most of the Company's commercial and personal lines writings are located in the downstate New York region, including New York City, Long Island, and Westchester County. The Company writes its business through retail and wholesale agents and brokers.

The following schedule shows the direct premiums written by the Company in New York for the period under examination:

<u>Calendar Year</u>	<u>Total Gross Premiums</u>
2012	\$ 6,849,191
2013	\$ 7,160,050
2014	\$ 8,640,134
2015	\$ 9,929,847
2016	\$10,468,466

The Company did not assume any business during the examination period.

C. Reinsurance Ceded

The Company places reinsurance with reinsurers that hold an A.M. Best financial strength rating of A- or higher. There are no significant counter-party risks related to the reinsurance recoverables of the Company. The Company considers its risk appetite and tolerance when determining the reinsurance program.

Ceded Reinsurance Program

<u>Type of Treaty</u>	<u>Cession</u>
<u>Property</u>	\$850,000 excess of \$150,000 each loss, each risk, limit \$2,550,000 each loss occurrence.
<u>Casualty</u>	\$800,000 excess of \$200,000 each loss occurrence. As respects fire damage legal liability: \$500,000 excess of \$1,000,000 each loss occurrence.
<u>Casualty and property combined</u>	In the event of a loss occurrence involving at least one casualty policy and at least one property policy, \$150,000 excess of \$200,000 each loss occurrence.
<u>Casualty clash</u>	\$1,000,000 excess of \$1,000,000 each loss occurrence.
<u>Property catastrophe excess of loss (4 layers)</u>	\$9,485,000 excess of \$400,000 each loss occurrence (97.5% of first \$4,600,000 excess of \$400,000 and 100% on the remaining \$5,000,000).

<u>Type of Treaty</u>	<u>Cession</u>
<u>Property facultative pro rata</u>	\$500,000 on any one risk after a minimum net retention of \$1,000,000.
<u>Casualty facultative excess of loss</u>	\$1,000,000 excess of \$1,000,000 each loss occurrence, each policy.
<u>Equipment breakdown quota share</u>	100% quota share on all policies classified as equipment breakdown.

All reinsurance is placed with authorized reinsurers. 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.

Examination review found that the Schedule F data reported by the Company in its filed 2016 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 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

As of December 31, 2016, the Company was not a member of any holding company system.

E. Significant Ratios

The Company's operating ratios, computed as of December 31, 2016 based upon the results of this examination, 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 policyholders' surplus	109%
Adjusted liabilities to liquid assets	75%
Gross agents' balances (in collection) to policyholders' surplus	4%

Underwriting Ratios

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

	<u>Amounts</u>	<u>Ratios</u>
Losses and loss adjustment expenses incurred	\$23,947,348	76.84%
Other underwriting expenses incurred	12,797,613	41.07
Net underwriting loss	<u>(5,581,490)</u>	<u>(17.91)</u>
Premiums earned	<u>\$31,163,471</u>	<u>100.00%</u>

The Company's reported risk based capital score ("RBC") was 431.4% at December 31, 2016. The examination financial adjustments would bring the Company's RBC score to approximately 350.2%.

3. FINANCIAL STATEMENTS

A. Balance Sheet

The following shows the assets, liabilities and surplus as regards policyholders as of December 31, 2016 as reported by the Company:

<u>Assets</u>	<u>Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>
Bonds	\$18,190,134	\$ 0	\$18,190,134
Common stocks (stocks)	1,892,257	0	1,892,257
Properties occupied by the company	250,211	0	250,211
Properties held for the production of income	101,827	0	101,827
Cash, cash equivalents and short-term investments	4,868,576	0	4,868,576
Investment income due and accrued	90,045	0	90,045
Uncollected premiums and agents' balances in the course of collection	315,004	4,351	310,653
Deferred premiums, agents' balances and installments booked but deferred and not yet due	1,832,512	(82)	1,832,594
Amounts recoverable from reinsurers	52,359	0	52,359
Net deferred tax asset	499,631	1,127	498,504
Electronic data processing equipment and software	8,903	0	8,903
Furniture and equipment, including health care delivery assets	2,214	2,214	0
Equities and deposits in pools & associations	16,874	0	16,874
Miscellaneous receivable	3,182	3,182	0
Credit card and ACH receipts receivable	<u>53,539</u>	<u>0</u>	<u>53,539</u>
Total assets	<u>\$28,177,268</u>	<u>\$10,792</u>	<u>\$28,166,476</u>

Liabilities, surplus and other fundsLiabilities

Losses and loss adjustment expenses	\$11,388,026
Commissions payable, contingent commissions and other similar charges	344,943
Other expenses (excluding taxes, licenses and fees)	156,859
Taxes, licenses and fees (excluding federal and foreign income taxes)	6
Unearned premiums	5,467,071
Advance premium	89,417
Ceded reinsurance premiums payable (net of ceding commissions)	367,822
Amounts withheld or retained by company for account of others	801,622
Payable for securities	<u>100,000</u>
Total liabilities	<u>\$18,715,766</u>

Surplus and other funds

Minimum and special contingent surplus	\$ 800,000
Unassigned funds (surplus)	<u>8,650,710</u>
Surplus as regards policyholders	<u>9,450,710</u>
Total liabilities, surplus and other funds	<u>\$28,166,476</u>

Note: The Internal Revenue Service has not audited the Company's Federal Income Tax returns covering tax year 2012 through tax year 2016. 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 loss for the five-year examination period as reported by the Company was \$858,020 detailed as follows:

Underwriting Income

Premiums earned		\$31,163,471
Deductions:		
Losses and loss adjustment expenses incurred	\$22,165,348	
Other underwriting expenses incurred	<u>12,797,613</u>	
Total underwriting deductions		<u>34,962,961</u>
Net underwriting gain or (loss)		\$ (3,799,490)

Investment Income

Net investment income earned	\$ 1,303,814	
Net realized capital gain	<u>410,905</u>	
Net investment gain		1,714,719

Other Income

Net gain from agents' or premium balances charged off	\$ 108,552	
Finance and service charges not included in premiums	515,034	
Fee and miscellaneous income	<u>445,657</u>	
Total other income		<u>1,069,243</u>
Net income before federal income taxes		\$ (1,015,528)
Federal income taxes incurred		<u>(157,508)</u>
Net income or (loss)		\$ <u>(858,020)</u>

C. Capital and Surplus Account

Surplus as regards policyholders decreased \$495,580 as reported by the Company during the five-year examination period January 1, 2012 through December 31, 2016, detailed as follows:

Surplus as regards policyholders as reported by the Company as of December 31, 2011			\$9,946,290
	<u>Gains in</u>	<u>Losses in</u>	
	<u>Surplus</u>	<u>Surplus</u>	
Net loss		\$858,020	
Net unrealized capital gains	\$ 16,082		
Change in net deferred income tax		112,180	
Change in non-admitted assets	186,367		
Cumulative effect of changes in accounting principles	<u>272,171</u>	_____	
Total gains and losses	<u>\$474,620</u>	<u>\$970,200</u>	
Net increase (decrease) in surplus			<u>(495,580)</u>
Surplus as regards policyholders as reported by the Company as of December 31, 2016			<u>\$9,450,710</u>

D. Analysis of Changes to Surplus

The following table details the changes to surplus as regards policyholders as determined by this examination:

Surplus as regards policyholders as of December 31, 2016, per filed annual statement	\$ 9,450,710
Decrease in surplus due to examination adjustment to loss and loss adjustment expense reserves	<u>(1,782,000)</u>
Surplus as regards policyholders as of December 31, 2016, after examination adjustments	<u>\$ 7,668,710</u>

E. Analysis of Changes to Income

The following table details the changes to net loss for the examination period as determined by this examination:

Net loss for the examination period, as reported by the Company	\$ 858,020
Net decrease in income due to loss and loss adjustment expense reserve adjustment	<u>1,782,000</u>
Net loss for the examination period, after examination adjustment	<u>\$2,640,020</u>

4. LOSSES AND LOSS ADJUSTMENT EXPENSES

The examination liability for the captioned items of \$13,170,026 is \$1,782,000 more than the \$11,388,026 reported by the Company in its filed 2016 Annual Statement. The largest component of the examination adjustment was in the commercial multiple peril liability line of business. 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”).

The examiner notes that the \$1,782,000 increase in loss and loss adjustment expense reserves was incorporated into the examination changes section of this report.

Subsequent to the examination date, the Company strengthened its reserves as of September 30, 2017 and consequently filed a nine-month loss and loss adjustment expense reserve deficiency of \$1,782,000.

As the Department recommends a reserve increase which is less than or equal to the Company’s runoff, and the Company has already acknowledged its runoff deficiency in its September 30, 2017 quarterly statement, no further changes to the Company’s financial statements are required.

5. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

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

<u>ITEM</u>		<u>PAGE NO.</u>
A.	<u>Accounts and Records</u>	
	It is recommended that the Company keep copies of checks paid for loss adjustment expenses.	8
	The Company has complied with this recommendation.	

6. SUMMARY OF COMMENTS AND RECOMMENDATIONS

This report contains no comments or recommendations.

Respectfully submitted,

_____/S/
Sheik H. Mohamed, CPA
Associate Insurance Examiner

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

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

_____/S/
Sheik H. Mohamed

Subscribed and sworn to before me

this _____ day of _____, 2019.

APPOINTMENT NO. 31645

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:

Sheik Mohamed

as a proper person to examine the affairs of the

Associated Mutual Insurance Cooperative

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

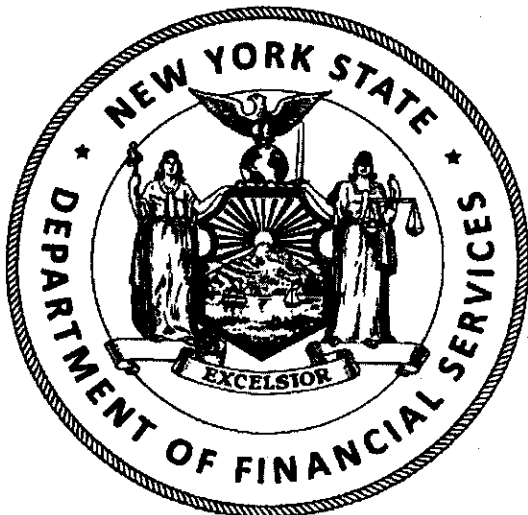
COMPANY

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 10th day of July, 2017

MARIA T. VULLO
Superintendent of Financial Services



By: Joan P. Riddell

Joan Riddell
Deputy Bureau Chief