

REPORT ON EXAMINATION

OF

MIDSTATE MUTUAL INSURANCE COMPANY

AS OF

DECEMBER 31, 2017

DATE OF REPORT

NOVEMBER 22, 2018

EXAMINER

LAMIN JAMMEH

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Department of Financial Services

ANDREW M. CUOMO
Governor

LINDA A. LACEWELL
Acting Superintendent

April 9, 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 31796 dated July 10, 2018, attached hereto, I have made an examination into the condition and affairs of Midstate Mutual 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 Midstate Mutual 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 home office located at 5612 South Street Road, Auburn, NY 13021.

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
- 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

Midstate Mutual Insurance Company was organized under the laws of the State of New York in 1879 as the Farmers' Mutual Indemnity Association of Moravia, New York ("the Association"), for the purpose of transacting business as an assessment cooperative fire insurance corporation. In 1924, the Association changed its corporate title to The Farmers' Mutual Indemnity Association of Cayuga County.

On March 31, 1982, the Association merged with The Farmers' Co-operative Fire Insurance Association of the Town of Clay, Camillus, Lysander and Van Buren, with the Association being the surviving corporation under the title The Farmers' Mutual Indemnity Association.

Effective July 1, 1986, the Association merged with Cayuga County Farmers' Insurance Company, the Cayuga County Patrons' Fire Relief Association, the Farmers' Reliance Mutual Insurance Company and the Southern Tier Co-operative Insurance Company. The Association was the surviving entity and the current title, Midstate Mutual Insurance Company was adopted.

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 eleven members. The board meets four times during each calendar year. At December 31, 2017, the board of directors was comprised of the following nine members:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Jeffery A. Armstrong Williamsville, NY	President, Baptist Life
Matthew A. Benedict Skaneateles, NY	President, Midstate Mutual Ins. Co.
James P. Chamberlain Auburn, NY	Senior V.P. Claims, Midstate Mutual Ins. Co.
Daniel J. Fessenden Union Springs, NY	Executive Director, Fred L. Emerson Foundation

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
John S. Fessenden King Ferry, NY	Loan Officer, Farm Credit of Western NY
Richard H. Flanagan Marietta, NY	Retired, Onondaga Deputy Sheriff
Lyndon R. Odell Union Springs, NY	Professional Farm Manager, Willet Dairy
Andrew P. White Auburn, NY	Retired, Midstate Mutual Ins. Co.
Michael L. White Clay, NY	Marketing Manager, McNeil & Co. Inc.

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

<u>Name</u>	<u>Title</u>
Matthew A. Benedict	President and CEO
James P. Chamberlain	Senior Vice President of Claims
John A. Gaines	Vice President of Information Technology
Lesia M. Veit	V.P. of Underwriting and Marketing
Joyce A. White	V.P. of Accounting and Administration

B. Territory and Plan of Operation

As of December 31, 2017, the Company was licensed to write business in all counties of New York State except Kings, Queens, Richmond, New York and Bronx.

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)

Paragraphs 5, 6, 7, 8, 13, 14 and 15 can be written solely in conjunction with fire insurance written under the same policy and covering the same premises. The Company is also authorized to accept and cede reinsurance as provided in Section 6606 of the New York Insurance Law.

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 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	\$13,905,344
2014	\$12,995,238
2015	\$13,038,074
2016	\$12,839,406
2017	\$13,121,018

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

The Company underwrites predominantly commercial multiple peril and homeowners multiple peril lines of business, which account for 54% and 40%, respectively of its net premium writings in 2017. The Company obtains its business through approximately 152 current agencies or brokers in 226 locations.

C. Reinsurance Ceded

The Company has structured its ceded reinsurance program as follows:

<u>Property Excess of Loss</u> (2 layers) 100% authorized	\$900,000 excess of \$350,000 ultimate net loss, each loss, each risk, subject to a limit of liability to the reinsurer of \$1,800,000 each loss occurrence.
<u>Casualty Excess of Loss</u> (2 layers) 100% authorized	\$650,000 excess of \$350,000 ultimate net loss, each loss occurrence, subject to a limit of liability to the Reinsurer of \$650,000 each loss occurrence.
<u>Property and Casualty Combined</u> (1 layer) 100% authorized	\$350,000 excess of \$350,000 ultimate net loss each loss occurrence in the event of a loss involving at least one casualty policy and one property policy.
<u>Casualty Clash Excess of Loss</u> (1 layer) 100% authorized	\$2,000,000 excess of \$1,000,000 ultimate net loss, each loss occurrence.
<u>Property Catastrophe Excess of Loss</u> (4 layers) 100% authorized	Unlimited coverage excess of \$500,000 ultimate net loss, each occurrence. No claim shall be covered unless the loss occurrence involves three or more risks.

In addition, the Company maintains quota share coverage whereby it cedes 100% of the liability and premium for its equipment breakdown business written on its policies and endorsements for equipment breakdown. Cessions by the Company for this coverage limit the liability to the reinsurer to \$5,000,000 as respects any one risk without prior approval of the Reinsurer.

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 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

The Company is not a member of a holding company system.

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	40%
Liabilities to liquid assets (cash and invested assets less investments in affiliates)	31%
Two-year overall operating	86%

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	\$35,066,162	60.95%
Other underwriting expenses incurred	21,620,590	37.58%
Net underwriting loss	<u>846,504</u>	<u>1.47%</u>
Premiums earned	<u>\$57,533,256</u>	<u>100%</u>

The Company's reported risk based capital score (RBC) was 28,121 at 12/31/17. 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>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>
Bonds	\$31,816,603	\$ 0	\$31,816,603
Common stocks (stocks)	\$6,228,861	0	6,228,861
Properties occupied by the company	\$549,986	0	549,986
Cash, cash equivalents and short-term investments	\$814,413	0	814,413
Investment income due and accrued	307,682	0	307,682
Uncollected premiums and agents' balances in the course of collection	374,427	191	374,236
Deferred premiums, agents' balances and installments booked but deferred and not yet due	2,065,527	261	2,065,266
Amounts recoverable from reinsurers	144,338	0	144,338
Current federal and foreign income tax recoverable and interest thereon	194,000	0	194,000
Electronic data processing equipment and software	7,995	0	7,995
Furniture and equipment, including health care delivery assets	124,446	124,446	0
Cash surrender value of life insurance invested assets	<u>129,303</u>	<u>129,303</u>	<u>0</u>
Totals	<u>\$42,757,581</u>	<u>\$254,201</u>	<u>\$42,503,380</u>

Liabilities, surplus and other funds

Losses and Loss Adjustment Expenses	\$5,155,141
Commissions payable, contingent commissions and other similar charges	853,855
Other expenses (excluding taxes, licenses and fees)	293,521
Net deferred tax liability	102,400
Unearned premiums	6,308,079
Advance premium	160,585
Ceded reinsurance premiums payable (net of ceding commissions)	33,575
Remittances and items not allocated	8,159
Deferred compensation payable	1,118,651
Private pension plan liability	<u>348,233</u>
Total liabilities	\$14,382,199
Minimum required surplus	\$100,000
Unassigned funds (surplus)	<u>28,021,181</u>
Surplus as regards policyholders	\$28,121,181
Totals	<u>\$42,503,380</u>

Note: The Internal Revenue Service did not audit the Company's federal income tax returns during the period under examination. 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 \$5,146,451 as detailed below:

Underwriting Income

Premiums earned		\$57,533,256
Deductions:		
Losses and loss adjustment expenses incurred	\$35,066,162	
Other underwriting expenses incurred	21,620,590	
Total underwriting deductions		<u>56,686,752</u>
Net underwriting gain or (loss)		\$ 846,504

Investment Income

Net investment income earned	\$4,681,950	
Net realized capital gain	<u>494,163</u>	
Net investment gain or (loss)		\$ 5,176,113

Other Income

Finance and service charges not included in premiums	701,808	
Aggregate write-ins for miscellaneous income	<u>(4,221)</u>	
Total other income		<u>97,587</u>
Net income after dividends to policyholders but before federal and foreign income taxes		\$ 6,720,204
Federal and foreign income taxes incurred		<u>1,573,753</u>
Net Income		<u>\$ 5,146,451</u>

C. Capital and Surplus

Surplus as regards policyholders increased \$6,925,972 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 per report by the Company as of December 31, 2012				<u>\$21,195,209</u>
		<u>Gains in Surplus</u>	<u>Losses in Surplus</u>	
Net income	\$5,146,451			
Net unrealized capital gains or (losses)	2,147,288			
Change in net deferred income tax			\$930,400	
Change in nonadmitted assets	562,633			
Net increase (decrease) in surplus	<u>\$7,856,372</u>		<u>\$930,400</u>	<u>\$ 6,925,972</u>
Surplus as regards policyholders per report by the Company as of December 31, 2017				<u>\$28,121,181</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 \$5,155,141 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”). Approximately 81.6% of the reserves is attributed to commercial multiple peril.

5. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

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

<u>ITEM</u>	<u>PAGE NO.</u>
A	
<u>Accounts and Records</u>	
i.	8
It is recommended that the Company report the correct amount of Premium and Considerations due in all subsequent filings with this Department.	
The Company has complied with this recommendation.	
ii.	8
It is recommended that the Company formalize its bank reconciliation process so that deposits in transit and other reconciling items are enumerated and dated so as to facilitate ease of recognition, investigation and clearing of any stale-dated checks	
The Company has complied with this recommendation.	
iii.	8
In addition, it is recommended that each bank reconciliation be signed and dated.	
The Company has complied with this recommendation	
B.	
<u>Risk Management and Internal Control</u>	
i.	8
It is recommended that the Company fully document the existence and performance of each risk mitigation strategy in order for examiners to evaluate the existence of controls in place at the Company and to determine whether the control procedures are operating as expected and performed on a timely basis. Included in the documentation should be required sign-offs by preparers and reviewers.	
The Company has complied with this recommendation	
ii.	8
It is recommended that the Company test its Disaster Recovery Plan at least once every five years.	
The Company has complied with this recommendation	
iii.	9
It is recommended that the Company have a signed contract with the person or business that stores their backed-up data.	
The Company has complied with this recommendation	

- iv. It is also recommended that the Company verify that there are adequate security measures at any site that stores the data. 9

The Company has complied with this recommendation

6. SUMMARY OF COMMENTS AND RECOMMENDATIONS

This report contains no recommendations

Respectfully submitted,

_____/S/
Lamin Jammeh
Senior Insurance Examiner

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

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

_____/S/
Lamin Jammeh

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

APPOINTMENT NO. 31796

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:

Lamin Jammeh

as a proper person to examine the affairs of the

Midstate Mutual 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 10th day of July, 2018

MARIA T. VULLO
Superintendent of Financial Services



By:

Joan P. Riddell

*Joan Riddell
Deputy Bureau Chief*

