

REPORT ON EXAMINATION

OF

FINGER LAKES FIRE AND CASUALTY COMPANY

AS OF

DECEMBER 31, 2014

DATE OF REPORT

JANUARY 29, 2016

EXAMINER

SHEIK MOHAMED

TABLE OF CONTENTS

<u>ITEM NO.</u>		<u>PAGE NO.</u>
1	Scope of examination	2
2.	Description of Company	3
	A. Corporate governance	3
	B. Territory and plan of operation	5
	C. Reinsurance	6
	D. Holding company system	7
	E. Significant ratios	8
	F. Accounts and records	8
3.	Financial statements	10
	A. Balance sheet	10
	B. Statement of income	12
	C. Capital and surplus account	13
4.	Losses and loss adjustment expenses	13
5.	Compliance with prior report on examination	14
6.	Summary of comments and recommendations	15



Department of Financial Services

ANDREW M. CUOMO
Governor

LINDA A. LACEWELL
Acting Superintendent

May 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 31369 dated August 17, 2015, attached hereto, I have made an examination into the condition and affairs of Finger Lakes Fire and Casualty Company as of December 31, 2014, and submit the following report thereon.

Wherever the designation “the Company” appears herein without qualification, it should be understood to indicate Finger Lakes Fire and Casualty 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 6905 Route 227, Trumansburg, New York 14886.

1. SCOPE OF EXAMINATION

The Department has performed a single-state examination of the Company. The previous examination was conducted as of December 31, 2009. This examination covered the five-year period from January 1, 2010 through December 31, 2014. 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 also 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
- Financial statement presentation
- Loss review and analysis
- Accounts and records
- 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 organized on December 23, 1876, as the Patrons Fire Relief Company of Seneca County, New York for the purpose of transacting business as a co-operative fire insurance corporation in the counties of Seneca, Ontario and Schuyler in this State. On November 14, 1967, the Department issued a certificate approving a change in the name of the Company to Seneca Co-operative Insurance Company.

On November 7, 1985, the Department approved an agreement of merger between the Finger Lakes Co-operative Insurance Company and the Seneca Co-operative Insurance Company, the surviving corporation. Pursuant to the agreement, the corporate title of the Company became Finger Lakes-Seneca Co-operative Insurance Company, effective January 1, 1986.

Effective June 1, 1994, the Department approved the conversion of the Company into a non-assessable advance premium co-operative and issued the Company's license to do business as an advance premium co-operative.

Effective April 3, 1995, the Department approved the change of the Company's name to Finger Lakes Fire and Casualty 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 twenty-one members. The board meets four times during each calendar year. At December 31, 2014, the board of directors was comprised of the following nine members:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Thomas R. Ball Dryden, NY	President, Chief Executive Officer and Consumer Services Officer, Finger Lakes Fire and Casualty Company
Valerie J. Bassett Interlaken, NY	Retired, Economic Development Department of Geneva
John W. Benedict Burdett, NY	Treasurer and Vice Chairman of the Board, Finger Lakes Fire and Casualty Company

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
David R. Eastman Ovid, NY	Self-employed, Farmer
Stephen E. Gillette Watkins Glen, NY	Retired
Stephen C. Hall Van Etten, NY	Secretary, Finger Lakes Fire and Casualty Company
Thomas L. Kime Geneva, NY	Chairman of the Board, Finger Lakes Fire and Casualty Company Bank Officer, Lyons National Bank
Douglas R. Thornton Spencer, NY	Retired, U.S. Postal Service Employee
Ray G. Van De Bogart Willseyville, NY	Retired, Farmer

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.

In response to general interrogatory 18 in its filed 2014 annual statement, the Company stated that it established a procedure for disclosure to its board of directors or trustees of any material interest or affiliation on the part of any officers, directors, trustees or responsible employees, which is in or is likely to conflict with the official duties of such person. Disclosure of potential conflicts of interest on the part of officers, directors and key personnel to the board of directors is generally considered a good business practice.

Examination review revealed that several conflicts of interest statements signed by officers and directors of the Company were not available for review. The Chairman of the Board Thomas L. Kime's conflict of interest statements for 2010 and 2011 were not available. Vice presidents Rodney D. Woods' and Marlene K. Stein's conflict of interest statements for the entire examination period were not available. Additionally, Shelley A. Winkleblack's conflict of interest statement for 2014 was not available. It is noted that Ms. Winkleblack became an officer in 2014.

It is recommended that the Company maintain conflict of interest statements for each year subject to examination and have it available for examination review.

As of December 31, 2014, the principal officers of the Company were as follows:

<u>Name</u>	<u>Title</u>
Thomas L. Kime	Chairman of the Board
Thomas R. Ball	President
Stephen C. Hall	Secretary
John W. Benedict	Treasurer and Vice Chairman of the Board
Rodney D. Woods	Vice President
Marlene K. Stein	Vice President
Shelly A. Winkleblack	Assistant Vice President

B. Territory and Plan of Operation

As of December 31, 2014, 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
19	Motor vehicle and aircraft physical damage
20	Marine and inland marine (inland marine only)

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

Based on the lines of business for which the Company is licensed 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 \$686,046. The Company writes predominantly commercial multiple peril and homeowners multiple peril lines of business which accounted for 51.1% and 26.1%,

respectively, of the 2014 direct written business. The Company writes through approximately 117 independent agents.

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

<u>Calendar Year</u>	<u>Direct Premiums</u>
2010	\$ 9,597,012
2011	\$ 9,869,679
2012	\$10,130,357
2013	\$10,712,694
2014	\$11,038,518

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

C. Reinsurance

As of the examination date, the Company has structured its ceded reinsurance program as follows:

<u>Treaty</u>	<u>Cession</u>
<u>Combined property, casualty and inland marine</u> (2 layers) 100% authorized	\$800,000 excess of \$200,000 each risk, each loss occurrence subject to a limit of \$900,000 and \$1,500,000 for each respective layer, for all risks, each loss occurrence for property and inland marine business.
<u>Combined property and inland marine</u> 100% authorized	\$1,000,000 excess of \$1,000,000 each risk, each loss occurrence subject to a limit of \$2,000,000 for all risks.
<u>Property catastrophe</u> (2 layers) 100% authorized	1 st layer – \$1,000,000 excess of \$500,000 each loss occurrence, subject to an aggregate limit of \$2,000,000 for the contract term. 2 nd layer - \$6,000,000 excess of \$1,500,000 each loss occurrence, subject to an aggregate limit of \$12,000,000 for the contract term.

<u>Treaty</u>	<u>Cession</u>
<u>Property facultative</u> 100% authorized	\$1,000,000 excess of \$2,000,000 per occurrence covering buildings, contents, time element, and other all as per original policies.
<u>Casualty clash</u> 100% authorized	\$2,000,000 excess of \$1,000,000 each loss occurrence.
<u>Umbrella quota share</u> (2 layers) 100% authorized	1 st layer – 95% quota share of the first \$1,000,000 net loss, each loss occurrence. 2 nd layer – 100% of \$2,000,000 in excess of \$1,000,000 net loss, each loss occurrence.
<u>Boiler and machinery</u> 100% authorized	100% cession not exceeding \$5,000,000 any one risk without prior written agreement.

All 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

As of December 31, 2014, the Company was not a member of any holding company system. The Company was independent with no affiliations.

E. Significant Ratios

The Company's operating ratios, computed as of December 31, 2014, 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	38%
Adjusted liabilities to liquid assets	32%
Gross agents' balances (in collection) to policyholders' surplus	2%

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>Ratios</u>
Losses and loss adjustment expenses incurred	\$22,309,875	53.78%
Other underwriting expenses incurred	15,834,137	38.17
Net underwriting gain	<u>3,341,151</u>	<u>8.05</u>
Premiums earned	<u>\$41,485,163</u>	<u>100.00%</u>

F. Accounts and Records

i. Disclosure of Unsecured Reinsurance Recoverables

SSAP No. 62R, paragraph 84 and the NAIC annual statement instructions require an insurer to disclose in Note 23 A of the Notes to Financial Statements if the Company has an unsecured aggregate recoverable for losses, paid and unpaid including incurred but not reported, loss adjustment expenses, and unearned premiums that exceeds three percent of its policyholders' surplus, with any individual reinsurers, authorized, unauthorized or certified. Examination review of Schedule F, Part 3 of the filed 2013 and 2014 annual statements revealed that the Company reported at least one reinsurer with unsecured reinsurance recoverables in excess of three percent of the Company's reported policyholders' surplus. However, the Company failed to make the required disclosures in Note 23 A of the Notes to Financial Statements.

It is recommended that the Company make the required disclosures regarding unsecured reinsurance recoverables in future annual statements filed with the Department to comply with SSAP No. 62R and the

NAIC annual statement instructions. A similar recommendation was made in the prior report on examination.

ii. Completion of Schedule D

The Company misclassified all of its NAIC designations on 2014 Schedule D Part 1 for the following categories: U.S. states, territories and possessions (direct and guaranteed) – issuer obligations; U.S. political subdivisions of states, territories and possessions (direct and guaranteed) – issuer obligations; U.S. special revenue, special assessment – issuer obligations; and industrial & miscellaneous (unaffiliated) – issuer obligations.

The misclassification of the bonds had no effect on their admitted value; however, it is recommended that the Company properly classify its bonds on Schedule D of its annual statement pursuant to the NAIC Annual Statement Instructions and the Purposes and Procedures Manual of the NAIC Investment Analysis Office. A similar recommendation was made in the prior report on examination.

iii. Amortization of bonds

The Company failed to enter call dates and call amount on Schedule D - Part 1 of its filed 2014 annual statement, as no trade tickets were maintained. These errors affected the Company's calculation of the 2014 book/adjusted carrying value. The 2014 reported book/adjusted carrying value was overstated by approximately \$139,000; however, no examination change is being made as the amount is immaterial. SSAP No. 26 Paragraph 6 states, in part "for continuously callable bonds with a lockout period, the first call date after the lockout period shall be used in determining the amortization of any premium. If there is no lockout period, and make whole call provisions are not included, any premium for continuously callable bonds shall be expensed completely at acquisition." Examination review revealed that several of the Company's bonds which were continuously callable were not amortized in accordance with the above-noted SSAP.

It is recommended that the Company maintain trade tickets for bond purchases and exercise greater care when completing its annual and quarterly statements filed with the Department. Also, it is recommended that the Company amortize bond premiums in accordance with the provisions of SSAP No. 26 Paragraph 6.

3. FINANCIAL STATEMENTS

A. Balance Sheet

The following shows the assets, liabilities and surplus as regards policyholders as of December 31, 2014 as reported by the Company:

<u>Assets</u>	<u>Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>
Bonds	\$22,701,994		\$22,701,994
Common stocks	10,334,114		10,334,114
Properties occupied by the company	277,539		277,539
Cash, cash equivalents and short-term investments	523,888		523,888
Investment income due and accrued	185,233		185,233
Uncollected premiums and agents' balances in the course of collection	494,137		494,137
Deferred premiums, agents' balances and installments booked but deferred and not yet due	1,743,142		1,743,142
Amounts recoverable from reinsurers	3,258		3,258
Other amounts receivable under reinsurance contracts	30,478		30,478
Electronic data processing equipment and software	36,181	\$ 4,422	31,759
Furniture and equipment, including health care delivery assets	33,224	33,224	0
Cash value of life insurance	270,330		270,330
Equities and deposits in pools and associations	<u>28,888</u>	<u>0</u>	<u>28,888</u>
Total assets	<u>\$36,662,406</u>	<u>\$37,646</u>	<u>\$36,624,760</u>

Liabilities, Surplus and Other fundsLiabilities

Losses and loss adjustment expenses	\$ 4,790,919
Commissions payable, contingent commissions and other similar charges	840,027
Other expenses (excluding taxes, licenses and fees)	397,766
Taxes, licenses and fees (excluding federal and foreign income taxes)	68,328
Current federal and foreign income taxes	20,169
Net deferred tax liability	741,300
Unearned premiums	5,617,602
Advance premium	167,261
Ceded reinsurance premiums payable (net of ceding commissions)	42,512
Amounts withheld or retained by company for account of others	<u>9,448</u>
 Total liabilities	 \$12,695,332

Surplus and Other Funds

Special contingent surplus	\$ 650,000
Unassigned funds (surplus)	<u>23,279,428</u>
Surplus as regards policyholders	<u>23,929,428</u>
 Total liabilities, surplus and other funds	 <u>\$36,624,760</u>

Note: The Internal Revenue Service has not audited tax returns covering tax years 2010 through 2014. 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 \$4,994,189 as detailed below:

Underwriting Income

Premiums earned		\$41,485,163
Deductions:		
Losses and loss adjustment expenses incurred	\$22,309,875	
Other underwriting expenses incurred	<u>15,834,137</u>	
Total underwriting deductions		<u>38,144,012</u>
Net underwriting gain or (loss)		\$ 3,341,151

Investment Income

Net investment income earned	\$ 3,152,991	
Net realized capital gain	<u>132,799</u>	
Net investment gain or (loss)		3,285,790

Other Income

Net gain or (loss) from agents' or premium balances charged off	\$ (134,952)	
Finance and service charges not included in premiums	768,967	
Miscellaneous income	<u>44,928</u>	
Total other income		<u>678,943</u>
Net income before federal income taxes		\$ 7,305,884
Federal income taxes incurred		<u>2,311,695</u>
Net income		\$ <u>4,994,189</u>

C. Capital and Surplus Account

Surplus as regards policyholders increased \$8,080,113 during the five-year examination period January 1, 2010 through December 31, 2014 as reported by the Company, detailed as follows:

Surplus as regards policyholders as reported by the Company as of December 31, 2009				\$15,849,315
		<u>Gains in Surplus</u>	<u>Losses in Surplus</u>	
Net income	\$4,994,189			
Net unrealized capital gains or (losses)	2,810,739			
Change in net deferred income tax	75,300			
Change in non-admitted assets	<u>199,885</u>		<u>\$0</u>	
Net increase (decrease) in surplus	\$8,080,113		\$0	<u>8,080,113</u>
Surplus as regards policyholders as reported by the Company as of December 31, 2014				<u>\$23,929,428</u>

4. LOSSES AND LOSS ADJUSTMENT EXPENSES

The examination liability for the captioned items of \$4,790,919 is the same as reported by the Company as of December 31, 2014. 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”).

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>Reinsurance</u>	
i. It was recommended that the Company comply with the annual statement instructions and complete Schedule F with the accurate data that reflects its reinsurance transactions.	7
The Company has complied with this recommendation.	
B. <u>Accounts and Records</u>	
i. It was recommended that the Company comply with SSAP No. 26 and the applicable manuals when completing Schedule D of the annual statement.	9
The Company has not complied with this recommendation. A similar comment is made in this report.	
ii. It was recommended that the Company make necessary disclosures regarding unsecured reinsurance recoverables in future filed annual statements to comply with SSAP No. 62 and the NAIC annual statement instructions.	9
The Company has not complied with this recommendation. A similar comment is made in this report.	
iii. It was recommended that the Company comply with the annual statement instructions and report on Schedule E, Part 3, the amount held pursuant to Section 1314 of the New York Insurance Law.	9
The Company has complied with this recommendation.	
iv. It was recommended that the Company either maintain, or provide upon examination, detailed documentation to support the rate used based upon rental rates of like properties in the same area or that it use the calculation prescribed in SSAP No. 40, which includes interest on carrying value of its home office building.	10
The Company has complied with this recommendation.	

- v. It was recommended that the Company maintain a custodial agreement with the broker custodian that will comply with Section 3, III, H of the NAIC Financial Examiners Handbook.

The Company has complied with this recommendation.

6. SUMMARY OF COMMENTS AND RECOMMENDATIONS

<u>ITEM</u>	<u>PAGE NO.</u>
A. <u>Corporate Governance</u>	
It is recommended that the Company maintain conflict of interest statements for each year subject to examination and have it available for examination review.	4
B. <u>Accounts and Records</u>	
i. It is recommended that the Company make the required disclosures regarding unsecured reinsurance recoverables in future filed annual statements to comply with SSAP No. 62R and the NAIC annual statement instructions. A similar recommendation was made in the prior report on examination.	8
ii. It is recommended that the Company properly classify its bonds on Schedule D of its annual statement pursuant to the NAIC annual statement instructions and the Purposes and Procedures Manual of the NAIC Investment Analysis Office. A similar recommendation was made in the prior report on examination.	9
iii. It is recommended that the Company maintain trade tickets for bond purchases and exercise greater care when completing its annual and quarterly statements filed with the Department. Also, it is recommended that the Company amortize bond premiums according to SSAP No. 26 Paragraph 6.	9

Respectfully submitted,

_____/S/
Sheik Mohamed, CPA
Associate Insurance Examiner

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

Sheik 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 Mohamed

Subscribed and sworn to before me

this _____ day of _____, 2019.

APPOINTMENT NO. 31369

NEW YORK STATE

DEPARTMENT OF FINANCIAL SERVICES

I, **ANTHONY ALBANESE**, Acting 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

Finger Lakes Fire & Casualty 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 17th day of August, 2015

ANTHONY ALBANESE
Acting Superintendent of Financial Services

By:



Rolf Kaumann
Deputy Chief Examiner

