REPORT ON EXAMINATION

OF

NORTH COUNTRY INSURANCE COMPANY

AS OF

DECEMBER 31, 2017

DATE OF REPORT	JULY 20, 2018
EXAMINER	LEE R. PROWELL

TABLE OF CONTENTS

NEW YORK STATE OF OPPORTUNITY. | Department of Financial Services

ANDREW M. CUOMO
Governor

LINDA A. LACEWELL
Superintendent

September 27, 2019

Honorable Linda A. Lacewell
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 31717 dated March 22, 2018, attached hereto, I have made an examination into the condition and affairs of North Country 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 North Country 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 21170 NYS Route 232, Watertown, New York 13601.

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
Affiliated group description
Reinsurance
Financial statement presentation
Loss review and analysis
Summary of recommendations

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

North Country Insurance Company was incorporated under the laws of the State of New York on May 2, 1877 and commenced business on August 21, 1877 as the Jefferson County Patron's Fire Relief Association, for the purpose of transacting business as an assessment cooperative fire insurance association in Jefferson and Lewis Counties, New York.

On March 6, 1958, this Department issued a certificate changing the Association's corporate title to the North Country Co-operative Insurance Company.

The North Country Co-operative Insurance Company merged with the Oneida County Grange Co-operative Fire Insurance Company as approved by this Department on February 2, 1961 to be effective November 30, 1960.

Effective January 1, 1984, the North Country Co-operative Insurance Company merged with the Adirondack Co-operative Insurance Company under a new corporate name, the North Country Adirondack Cooperative Insurance Company ("NCACIC"). On January 1, 1985, NCACIC merged with The Farmers' Fire and Lightning Insurance Company of Oneida County, New York. On January 1, 1987, NCACIC merged with the Westmoreland Co-operative Insurance Association.

Effective October 1, 1991, NCACIC merged with the St. Lawrence County Farmers Insurance Company and adopted its current corporate name, North Country Insurance Company.

On September 1, 1996, the Company converted from an assessment co-operative company to an advance premium company. On January 1, 1997, the Company merged with Chenango Mutual Insurance Company, and on January 1, 1998, it merged with Heritage Mutual Insurance Company. North Country Insurance Company was the surviving company in both mergers.

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 five times during each calendar year. At December 31, 2017, the board of directors was comprised of the following ten members:

Name and Residence	Principal Business Affiliation
Neil R. Bartle Oxford, NY	President and Chief Executive Officer, Blueox Energy Products and Services
Stephen James Duflo Adams, NY	Treasurer and Chief Investment Officer, North Country Insurance Company
William Ronald Jesmore Evans Mills, NY	Certified Public Accountant
Marc Edgar Ladouceur, Watertown, NY	President and Chief Executive Officer, North Country Insurance Company
Charles Thomas Langdon Wellesley Island, NY	Retired
Michelle Danine Pfaff Dexter, NY	Retired
Robert James Sharlow Wellesley Island, NY	Executive Director, Thousand Islands Park Corporation
Arthur Chapman Stever III Watertown, NY	Retired
John James Wheeler Watertown, NY	Comptroller, Omnia Flitara LLC
John Martin Wicke Massena, NY	Director of Strategic Alliance State University of New York, Potsdam

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

Name	Title
Marc Edgar Ladouceur	President
Cora Arlinda Donahue	Secretary
Stephen James Duflo	Treasurer
Neil Raymond Bartle	Vice President

B. Territory and Plan of Operation

As of 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:

Paragraph	Line of Business
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 only)

Based upon 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 $627,349.

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

Calendar Year	Direct Written Premiums
2013	$8,388,577
2014	$8,309,463
2015	$8,468,358
2016	$8,651,255
2017	$8,628,789

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

The major lines of business written by the Company are homeowners' multi-peril, commercial multi-peril and farmowners which accounted for approximately 46%, 33% and 11%, respectively, of the 2017 direct written premiums. The Company writes business through approximately 120 independent agents located throughout New York.

C. Reinsurance Ceded

The Company has structured its ceded reinsurance program as follows:

Type of treaty	Cession
Property and Casualty Excess of Loss	
Property Coverage 1 layer	\$800,000 excess of \$200,000 ultimate net loss, each loss, each risk, subject to a limit of liability of \$2,400,000 each loss occurrence.
Casualty Coverage 1 layer	\$800,000 excess of \$200,000 ultimate net loss, each loss occurrence.
Casualty and Property Combined 1 layer	In the event of a loss occurrence involving one or more property policy and one or more casualty policy: \$200,000 excess of \$200,000 each loss occurrence.
Property Catastrophe Excess of Loss 3 layers	\$11,500,000 excess of \$500,000 ultimate net loss, each loss occurrence.
Casualty Clash Excess of Loss 1 layer	\$2,000,000 excess of \$1,000,000 ultimate net loss, each loss occurrence.
Equipment Breakdown 100% Quota Share	100% of the Company's net retained liability subject to a limit as follows: \$10,000,000 on any one commercial multi-peril or farm-owners risk, \$50,000 on any one homeowners' risk, and \$10,000 any one risk service lines coverage

Facultative property coverage is maintained whereby maximum cessions are limited to \$2,000,000 on any one risk, subject to a minimum net retention of \$100,000. For perils other than fire whenever the Company carries fire liability upon the same risk, it shall cede at least an equal proportion of such fire liability to the contract.

Facultative casualty coverage is also maintained in excess of \$1,000,000 each loss occurrence, each policy, subject to a limit of liability of \$1,000,000 each loss occurrence, each policy and shall not exceed an annual aggregate limit of \$2,000,000 inclusive of loss adjustment expense for all acts of terrorism.

Since the previous examination, the Company's retention limits have increased from $150,000 to $200,000 on both property and casualty business. All reinsurance was ceded to authorized, accredited or certified 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 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 the NAIC Accounting Practices and Procedures Manual, Statement of Statutory Accounting Principles ("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. Affiliated Group

The Company is not a member to a holding company system; however, as of December 31, 2017, the Company had a wholly-owned subsidiary, Rices Road Corporation, ("RRC"). RRC owns the office building which serves as the Company's home office in Watertown, New York.

At December 31, 2017, the Company was party to the following agreements with RRC:

Tax Allocation Agreement

Effective January 1, 2008, the Company and RRC entered into a tax allocation agreement to file a consolidated tax return. The agreement stipulates that each entity prepare and furnish a computation of their respective separate federal income tax liability. The agreement was filed with the Department and was non-objected to per letter dated October 26, 2009.

Service Agreement

Effective January 1, 2009, the Company and RRC entered into a service agreement whereby the Company provides accounting, realtor and rental services, and maintenance services to RRC. RRC reimburses the Company based on the actual cost of time and materials needed to complete each service. RRC, in turn, provides rental space to the Company, wherein the Company pays rent on a monthly basis at a fair and equitable rate. The agreement was filed with this Department and was non-objected to per letter dated October 29, 2009.

Lease Agreement

Effective January 1, 2016, the Company and RRC entered into a lease agreement whereby RRC leases to the Company a portion of the premises located at 21170 NYS Route 232 Town of Watertown, Jefferson County, New York to be used as business offices. The term of the lease is for a period of five years which commenced on January 1, 2016 and terminates on December 31, 2020.

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.

Operating Ratios	Result
Net premiums written to policyholders' surplus	38%
Adjusted liabilities to liquid assets	30%
Two-year overall operating	67%

Underwriting Ratios

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

	Amounts	Ratio
Losses and loss adjustment expenses incurred	$14,480,341	39.58%
Other underwriting expenses incurred	15,016,357	41.04
Net underwriting gain	7,091,858	19.38
Premiums earned	$36,588,556	100.00%

The Company's reported risk-based capital score ("RBC") was 3,495.8% at December 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:

Assets

	Assets	Non-admitted Assets	Net Admitted Assets
Bonds	$22,666,772		$22,666,772
Preferred stocks	114,210		114,210
Common stocks	2,147,765		2,147,765
Cash, cash equivalents and short-term investments	1,681,907		1,681,907
Investment income due and accrued	226,854		226,854
Uncollected premiums and agents' balances in the course of collection	204,138	$ 26,964	177,174
Deferred premiums, agents' balances and installments booked but deferred and not yet due	1,285,143		1,285,143
Amounts recoverable from reinsurers	968		968
Current federal and foreign income tax recoverable and interest thereon	183,505		183,505
Net deferred tax asset	137,680		137,680
Electronic data processing equipment and software	186,335	184,085	2,250
Furniture and equipment, including health care delivery assets	1,779	1,779	0
Miscellaneous- cash value life insurance	501,617		501,617
Equities and deposits in pools and associations	54,910		54,910
Deposit on reinsurance	55,510		55,510
Summary of remaining write-ins	56	0	56
Total assets	$29,449,149	$212,828	$29,236,321

Liabilities, surplus and other funds

Liabilities

Losses and loss adjustment expenses		$ 3,487,503
Commissions payable, contingent commissions and other similar charges		390,103
Other expenses (excluding taxes, licenses and fees)		286,493
Unearned premiums		4,330,998
Advance premium		99,484
Ceded reinsurance premiums payable (net of ceding commissions)		41,830
Amounts withheld or retained by company for account of others		10,330
Remittances and items not allocated		3,447
Deferred compensation obligation		351,049
Total liabilities		$ 9,001,237
Surplus and other funds		
Special contingent surplus	$ 627,349	
Unassigned funds (surplus)	19,607,735	
Surplus as regards policyholders		20,235,084
Total liabilities, surplus and other funds		$29,236,321

Note: The Internal Revenue Service did not audit the Company's tax returns covering tax years 2013 through 2017. 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 $7,454,158 as detailed below:

Underwriting Income		
Premiums earned		$36,588,556
Deductions:		
Losses and loss adjustment expenses incurred	$14,480,341	
Other underwriting expenses incurred	15,016,357	
Total underwriting deductions		29,496,698
Net underwriting gain		$ 7,091,858
Investment Income		
Net investment income earned	$ 3,097,831	
Net realized capital gain	171,857	
Net investment gain		3,269,688
Other Income		
Net gain or (loss) from agents' or premium balances charged off	$ 5,447	
Finance and service charges not included in premiums	164,584	
Miscellaneous income	161,579	
Total other income		331,610
Net income before dividends to policyholders and before federal and foreign income taxes		$10,693,156
Federal and foreign income taxes incurred		3,238,998
Net income		$ 7,454,158

C. Capital and Surplus

Surplus as regards policyholders increased $7,322,924 during the five-year examination period January 1, 2013 through December 31, 2017 as reported by the Company, detailed as follows:

	Gains in Surplus	Losses in Surplus	
Surplus as regards policyholders as reported by the Company as of December 31, 2012			$12,912,160
Net income	$7,454,158		
Net unrealized capital gains or losses	189,108		
Change in net deferred income tax		$121,574	
Change in non-admitted assets	0	198,768	
Total gains and losses in surplus	$7,643,266	$320,342	
Net increase (decrease) in surplus			7,322,924
Surplus as regards policyholders as reported by the Company as of December 31, 2017			$20,235,084

No adjustment was made to surplus as a result of this examination.

4. LOSSES AND LOSS ADJUSTMENT EXPENSES

The examination liability for the captioned items of $3,487,503 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 SSAP No. 55. Commercial multi-peril and homeowners’ multi-peril lines of business accounted for approximately 61% and 33%, respectively, of the reported reserves as of December 31, 2017.

5. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

The prior report on examination did not contain any comments or recommendations.

6. SUMMARY OF COMMENTS AND RECOMMENDATIONS

This report does not contain any comments or recommendations.

Respectfully submitted,

_____________/S/___________
Lee R. Prowell
Senior Insurance Examiner

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

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

_____________/S/___________
Lee R. Prowell

Subscribed and sworn to before me

this__________ day of ___________________, 2019.

APPOINTMENT NO. 31717

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:*

Lee Prowell

as a proper person to examine the affairs of the

North Country 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 22nd day of March, 2018

MARIA T. VULLO
Superintendent of Financial Services

By:

Joan Riddell
Deputy Bureau Chief