

REPORT ON EXAMINATION

OF

GENESEE PATRONS COOPERATIVE INSURANCE COMPANY

AS OF

DECEMBER 31, 2017

DATE OF REPORT

JUNE 10, 2019

EXAMINER

SHEIK H. MOHAMED

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## Department of Financial Services

**ANDREW M. CUOMO**  
Governor

**LINDA A. LACEWELL**  
Superintendent

October 28, 2019

Honorable Linda A. Laceywell  
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 31842 dated December 6, 2018, attached hereto, I have made an examination into the condition and affairs of Genesee Patrons Cooperative 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 Genesee Patrons Cooperative 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 218 East Main Street, Batavia, New York 14020.

## 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 when 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
- Financial statement presentation
- Loss review and analysis
- Summary of recommendations

A review was also made to ascertain what action was taken by the Company with regard to the 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 became licensed and commenced business on May 3, 1877. The Company was incorporated under the laws of the State of New York on July 18, 1910, as the Genesee County Patrons Fire Relief Association. On April 27, 1979, the Company changed its corporate name to Genesee Patrons Cooperative Insurance Company. In April 1995, the Company's license was amended, enabling it to transact business in the entire State of New York, excluding the counties of New York, Kings, Queens, Bronx and Richmond.

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

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Guy R. Clark Pavilion, NY	Owner, Cedar Street Sales & Rentals
Charles E. Cook Byron, NY	Part Owner, Liberty Pumps
Joseph P. Forysth Batavia, NY	Certified Public Accountant, Self employed
Gary C. Gable Hamburg, NY	Retired
William G. Hirsch, Sr. Alexander, NY	Part Owner, Hirsch Dairy Farm
Steven P. Krna Alexander, NY	President and Chief Executive Officer, Genesee Patrons Cooperative Insurance Company
Joseph C. Martindale Williamsville, NY	Owner, Gary C. Gable Professional Adjusters, Inc.
Sylvia S. Maskell Batavia, NY	Secretary and Bookkeeper, Genesee Patrons Cooperative Insurance Company

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Keith R. Norton Pavilion, NY	Retired
Francis M. Spiotta Batavia, NY	Chairman of the Board, Genesee Patrons Cooperative Insurance Company
Bruce R. Tehan Batavia, NY	Treasurer, Genesee Patrons Cooperative Insurance Company

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

<u>Name</u>	<u>Title</u>
Steven P. Krna	President
Sylvia S. Maskell	Secretary
Bruce R. Tehan	Treasurer
Bruce D. Anderson	Vice President

B. Territory and Plan of Operation

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

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 marine 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 licensed to accept and cede reinsurance as provided by 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 Company did not assume any business during the examination period. The following schedule shows the direct premiums written by the Company for the period under examination:

<u>Calendar Year</u>	<u>Total Direct Premiums</u>
2013	\$4,845,808
2014	\$4,887,288
2015	\$5,169,555
2016	\$5,578,909
2017	\$6,059,390

The Company's largest lines of business are homeowners' multiple peril, commercial multiple peril and farmowners multiple peril, which accounted for approximately 45%, 35%, and 12%, respectively, of the 2017 direct premium writings. The business is produced through approximately 109 independent agents and five brokers.

#### 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.

The Company has structured its ceded reinsurance program as follows:

<u>Type of Treaty</u>	<u>Cession</u>
<u>Property</u> (2 layers) 100% authorized	\$625,000 excess \$125,000 each loss, each risk; limit \$1,875,000 each loss occurrence.
<u>Specified catastrophe perils</u> 100% authorized	\$440,000 excess \$60,000 each loss, each risk; limit \$1,125,000 each loss occurrence.
<u>Casualty</u> (2 layers) 100% authorized	\$940,000 excess \$60,000 each loss occurrence.
<u>Casualty and property combined</u> 100% authorized	In the event of a loss occurrence involving at least one property and one casualty policy; \$60,000 excess \$125,000 each loss occurrence.
<u>Casualty clash</u> 100% authorized	\$1 million excess \$1 million ultimate net loss per occurrence. With respect to workers' compensation insurance required by subsection (j) of Section 3420 of the New York Insurance Law, no claim shall be made unless the Company shall first sustain an ultimate net loss in excess of \$2 million. The reinsurer shall then reimburse the Company for the whole of such excess.
<u>Property catastrophe</u> Layer 1 100% authorized	100% of ultimate net loss of \$1,250,000 excess \$250,000 each loss occurrence (three or more risks involved).
Layer 2 100% authorized	100% of ultimate net loss excess \$1,500,000 each loss occurrence (three or more risks involved).
<u>Casualty facultative excess of loss</u> 100% authorized	\$1 million excess \$1 million each loss occurrence, each policy. Subject to an annual aggregate limit of \$2 million, inclusive of loss adjustment expense during the term of the contract for all acts of terrorism as covered by the contract.
<u>Property facultative pro rata</u> 100% authorized	The contract is limited to a maximum of \$1,000,000 on any one risk after a minimum net retention of \$200,000.
<u>Equipment breakdown quota share</u> 100% authorized	100% quota share on all policies classified as equipment breakdown.

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 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, 2017, the Company was 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 NAIC.

<u>Operating Ratios</u>	<u>Result</u>
Net premiums written to policyholders' surplus	83%
Adjusted liabilities to liquid assets	44%
Two-year overall operating	91%

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	\$11,665,786	60.15%
Other underwriting expenses incurred	6,800,255	35.07
Net underwriting gain (loss)	<u>927,718</u>	<u>4.78</u>
Premiums earned	<u>\$19,393,759</u>	<u>100.00%</u>

The Company's reported risk-based capital ("RBC") score was 992.9% 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:

<u>Assets</u>	<u>Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>
Bonds	\$ 4,128,434	\$ 0	\$ 4,128,434
Preferred stocks (stocks)	39,300	0	39,300
Common stocks (stocks)	3,669,586	0	3,669,586
Properties occupied by the company	67,048	0	67,048
Cash, cash equivalents and short-term investments	981,193	0	981,193
Other invested assets	691,041	0	691,041
Investment income due and accrued	20,071	0	20,071
Uncollected premiums and agents' balances in the course of collection	176,251	5,677	170,574
Deferred premiums, agents' balances and installments booked but deferred and not yet due	855,949	0	855,949
Amounts recoverable from reinsurers	(14,796)	0	(14,796)
Electronic data processing equipment and software	37,879	37,879	0
Furniture and equipment, including health care delivery assets	3,611	3,611	0
Cash surrender value life insurance	<u>110,485</u>	<u>0</u>	<u>110,485</u>
Total assets	<u>\$10,766,052</u>	<u>\$47,167</u>	<u>\$10,718,885</u>

Liabilities, Surplus and Other FundsLiabilities

Losses and loss adjustment expenses	\$ 712,693
Commissions payable, contingent commissions and other similar charges	297,887
Other expenses (excluding taxes, licenses and fees)	295,096
Taxes, licenses and fees (excluding federal and foreign income taxes)	2,184
Current federal and foreign income taxes	7,895
Net deferred tax liability	103,163
Unearned premiums	3,055,263
Advance premium	87,852
Ceded reinsurance premiums payable (net of ceding commissions)	177,339
Remittances and items not allocated	<u>17,425</u>
 Total liabilities	 \$ 4,756,797

Surplus and other funds

Minimum surplus to policyholders	\$ 100,000
Unassigned funds (surplus)	<u>5,862,088</u>
 Surplus as regards policyholders	 <u>5,962,088</u>
 Total liabilities, surplus and other funds	 <u>\$10,718,885</u>

Note: The Internal Revenue Service has not performed any audits of the Company's Federal Income Tax returns for 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 \$1,139,853, as detailed below:

Underwriting Income

Premiums earned		\$19,393,759
Deductions:		
Losses and loss adjustment expenses incurred	\$11,665,786	
Other underwriting expenses incurred	<u>6,800,255</u>	
Total underwriting deductions		<u>18,466,041</u>
Net underwriting gain or (loss)		\$ 927,718

Investment Income

Net investment income earned	\$ 144,542	
Net realized capital gain	<u>196,520</u>	
Net investment gain or (loss)		341,062

Other Income

Net gain or (loss) from agents' or premium balances charged off	\$ 32,126	
Finance and service charges not included in premiums	320,659	
Other income	<u>9,779</u>	
Total other income		<u>362,564</u>
Net income before federal and foreign income taxes		\$ 1,631,344
Federal and foreign income taxes incurred		<u>491,491</u>
Net income		<u>\$ 1,139,853</u>

C. Capital and Surplus

Surplus as regards policyholders increased \$2,001,329 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				\$3,960,759
	<u>Gains in</u>	<u>Losses in</u>		
	<u>Surplus</u>	<u>Surplus</u>		
Net income	\$1,139,853			
Net unrealized capital gains or (losses)	753,903			
Change in net deferred income tax		\$114,792		
Change in non-admitted assets	<u>222,365</u>	<u>0</u>		
Net increase (decrease) in surplus	\$2,116,121	\$114,792		<u>2,001,329</u>
Surplus as regards policyholders as reported by the Company as of December 31, 2017				<u>\$5,962,088</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 \$712,693 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 SSAP No. 55. The reserves were concentrated in the homeowners/farmowners (55.8%) and commercial multiple peril (40.8%) lines of business.

## 5. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

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

<u>ITEM</u>	<u>PAGE NO.</u>
A. <u>Reinsurance</u> It was recommended that the Company comply with Section 1308(e)(1)(A) of the New York Insurance Law and file its reinsurance contracts and any amendments thereto with the Department for review in accordance with Section 1308(e)(1)(A) of the New York Insurance Law.  The Company has complied with this recommendation.	7
B. <u>Accounts and Records</u>	
i. It was recommended that the Company perform monthly reconciliations of its cash accounts. Such reconciliations should be dated and include the initials of both the preparer and reviewer.  The Company has complied with this recommendation.	9
ii. It was recommended that the Company ensure that all investment transactions are approved by its board of directors or a committee thereof, and that all investment transactions being approved are included with the board minutes pursuant to the requirements of Section 1411(a) of the New York Insurance Law.  The Company has complied with this recommendation.	10
iii. It was recommended that the Company comply with SSAP No. 70, paragraph 6 and apportion expenses between expense groups using the method that yields the most accurate results and retain records so that this allocation can be verified.  The Company has complied with this recommendation.	10
iv. It was recommended that someone other than the payee review and sign-off on their own expenses as this is a good internal control.  The Company has complied with this recommendation.	11
v. It was recommended that all future employee/director/officer expenses being reimbursed by the Company be signed off on and dated by both the payee and the reviewer and include a proper description of the business nature of the expense.	11

The Company has complied with this recommendation.

C. Market Conduct

- i. It was recommended that the Company ensure that all agent or broker termination notices comply with all provisions of Department Regulation 90. 16

The Company has complied with this recommendation.

- ii. It was recommended that the Company include the specific reason or reasons for nonrenewal of personal lines policies pursuant to the provisions of Section 3425(d)(1) of the New York Insurance Law. 17

The Company has complied with this recommendation.

- iii. It was recommended that the Company include the specific reason or reasons for nonrenewal of commercial lines policies pursuant to the provisions of Section 3426(e)(2) of the New York Insurance Law. 17

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. 31842

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

**Genesee Patrons 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 6th day of December, 2018

MARIA T. VULLO  
Superintendent of Financial Services



By:

*Joan P. Riddell*

Joan Riddell  
Deputy Bureau Chief