

REPORT ON EXAMINATION

OF

PITTSTOWN COOPERATIVE FIRE INSURANCE COMPANY

AS OF

DECEMBER 31, 2015

DATE OF REPORT

OCTOBER 28, 2016

EXAMINER

SHEIK H. MOHAMED

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Department of Financial Services

ANDREW M. CUOMO
Governor

LINDA A. LACEWELL
Superintendent

October 18, 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 31539 dated October 26, 2016, attached hereto, I have made an examination into the condition and affairs of Pittstown Cooperative Fire Insurance Company as of December 31, 2015, and submit the following report thereon.

Wherever the designation “the Company” or “Pittstown” appears herein without qualification, it should be understood to indicate Pittstown Cooperative Fire 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 2417 Triphammer Road, Ithaca, New York 14850.

1. SCOPE OF EXAMINATION

The Department has performed an individual examination of the Company, a single-state insurer. The previous examination was conducted as of December 31, 2010. This examination covered the five-year period from January 1, 2011 through December 31, 2015, and was limited in scope to these balance sheet items considered by this Department to require analysis, verification or description, including: invested assets, loss and loss adjustment expense reserves. The examination included a review of income, disbursements and company records deemed necessary to accomplish such analysis or verification. Transactions occurring subsequent to this period were reviewed where deemed appropriate by the examiner.

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.

2. DESCRIPTION OF COMPANY

The Company was organized in 1857. On December 29, 1910, this Department issued a certificate authorizing the Company to continue transacting business as an assessment cooperative fire insurance company in the town of Pittstown. The Company's license was amended in March 1954, extending its territory to all of Rensselaer County, and again in May 1983 to extend its territory to include Washington County.

In May 2014, the Company's license was amended to extend its territory to all other counties in New York, except Bronx, Kings, New York, Queens, and Richmond.

Effective April 1, 2014, the Company entered into an affiliation agreement with Security Mutual Insurance Company, an advance premium insurance company domiciled 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 thirteen members. The board meets four times

during each calendar year. At December 31, 2015, the board of directors was comprised of the following nine members:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Robert J. Clune Ithaca, NY	Attorney, Williamson, Clune and Stevens
Allen Cornell Hoosick Falls, NY	Farm Owner
Delbert L. Hall Dryden, NY	Secretary and Treasurer, Security Mutual Insurance Company
Joan H. Holden Lansing, NY	Retired
William H. Maddren Cortland, NY	Retired
Thomas R. Ruane Ithaca, NY	President, Security Mutual Insurance Company
David Schmidt Melrose, NY	Farm Owner
Jayne M. Tarbox Troy, NY	Farm Owner
Wilfred W. Wege Ballston Lake, NY	Retired

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, 2015, the principal officers of the Company were as follows:

<u>Name</u>	<u>Title</u>
Delbert L. Hall	President
Thomas R. Ruane	Secretary & Treasurer
Wilfred W. Wege	Vice President

B. Territory and Plan of Operation

As of December 31, 2015, the Company was licensed to write business within all counties in New York State except 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 only)

Based on 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 issues inland marine policies for a term of one year. All other policies are issued for a term of three years. At December 31, 2015, the Company wrote business through two 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 Written</u>
2011	\$11,882
2012	\$10,226
2013	\$10,069
2014	\$ 9,695
2015	\$13,648

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

C. Reinsurance Ceded

The Company has structured its ceded reinsurance program as follows:

<u>Type of Treaty</u>	<u>Cession</u>
<u>Combination Property</u> Excess of Loss	100% of \$78,600 in excess of \$5,400 each loss, each risk; for windstorm, tornado, cyclone, flood, earthquake, or volcanic eruption.
	100% of \$70,000 in excess of \$14,000 each loss, each risk; as respects losses other than those described above.
	The liability of the reinsurers shall not exceed \$210,000 each occurrence.
<u>Windstorm Catastrophe</u> Excess of Loss	100% of the amount by which net retained losses exceeds 10% of the Company's policyholders' surplus per occurrence (loss occurrence must involve 3 or more risks).

The examiner reviewed all ceded reinsurance contracts in effect at December 31, 2015. 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 of the Schedule F data reported by the Company in its filed annual statement was found to accurately reflect 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 Principle ("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.

D. Affiliated Group

Effective April 1, 2014 the Company entered into an affiliation agreement with Security Mutual Insurance Company (“Security Mutual”), an advance premium insurance company domiciled in the State of New York. As part of the affiliation agreement, the Company entered into the following agreements:

i. Expense Sharing Agreement

Under the terms and conditions of this agreement, the Company and Security Mutual share certain expenses to reduce the overall operating expenses of each company.

ii. Surplus Note Agreement

Pursuant to the provisions of Section 1307 of the New York Insurance Law, the Department approved the Company’s request for a floating rate surplus note with a principal amount of \$1,000,000. The surplus note was issued on April 1, 2014, with a due date of December 15, 2034. This surplus note was reduced to \$500,000 in the second quarter of 2016.

The Department did not object to the implementation of these agreements.

E. Significant Ratios

The following operating ratios, computed as of December 31, 2015, 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	1%
Adjusted liabilities to liquid assets	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	\$ 3,545	21.60%
Other underwriting expenses incurred	118,332	720.92
Net underwriting gain (loss)	<u>(105,463)</u>	<u>(642.52)</u>
Premiums earned	<u>\$ 16,414</u>	<u>100.00%</u>

3. FINANCIAL STATEMENTS

A. Balance Sheet

The following shows the assets, liabilities and surplus as regards policyholders as of December 31, 2015 as reported by the Company:

<u>Assets</u>	<u>Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>
Bonds	\$ 700,000	\$0	\$ 700,000
Common stocks (stocks)	130,963	0	130,963
Cash, cash equivalents and short-term investments	256,569	0	256,569
Investment income due and accrued	654	0	654
Uncollected premiums and agents' balances in the course of collection	112	0	112
Key bank annuity	<u>23,531</u>	<u>0</u>	<u>23,531</u>
Total assets	<u>\$1,111,829</u>	<u>\$0</u>	<u>\$1,111,829</u>

Liabilities, Surplus and Other Funds

Liabilities

Loss and loss adjustment expenses		\$ 0
Other expenses (excluding taxes, licenses and fees)		15,006
Taxes, licenses and fees (excluding federal and foreign income taxes)		566
Unearned premiums		1,606
Advance premium		1,047
Amounts withheld or retained by company for account of others		<u>164</u>
Total liabilities		\$ 18,389

Surplus and Other Funds

Special contingent fund	\$ 100,000	
Surplus notes	1,000,000	
Unassigned funds (surplus)	<u>(6,560)</u>	
Surplus as regards policyholders		<u>1,093,440</u>
Total liabilities, surplus and other funds		<u>\$1,111,829</u>

Note: 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 examination period as reported by the Company was \$172,067 as detailed below:

Underwriting Income

Premiums earned		\$ 16,414
Deductions:		
Losses and loss adjustment expenses incurred	\$ 3,545	
Other underwriting expenses incurred	<u>118,332</u>	
Total underwriting deductions		<u>121,877</u>
Net underwriting gain (loss)		\$(105,463)

Investment Income

Net investment income earned	\$ 30,745	
Net realized capital gain	<u>9,955</u>	
Net investment gain (loss)		<u>40,700</u>
Net income before dividends to policyholders and before federal and foreign income taxes		\$(64,763)
Dividends to policyholders		<u>107,304</u>
Net income after dividends to policyholders but before federal and foreign income taxes		\$(172,067)
Federal and foreign income taxes incurred		<u>0</u>
Net income (loss)		<u>\$(172,067)</u>

C. Capital and Surplus

Surplus as regards policyholders increased \$876,791 during the five-year examination period January 1, 2011 through December 31, 2015 as reported by the Company, detailed as follows:

Surplus as regards policyholders as reported by the Company as of December 31, 2010			\$ 216,649
	<u>Gains in Surplus</u>	<u>Losses in Surplus</u>	
Net income (loss)		\$172,067	
Net unrealized capital gains or (losses)		18,498	
Change in non-admitted assets	\$ 67,356		
Change in surplus notes	<u>1,000,000</u>	<u>0</u>	
Total gains and losses	<u>\$1,067,356</u>	<u>\$190,565</u>	
Net increase (decrease) in surplus			<u>876,791</u>
Surplus as regards policyholders as reported by the Company as of December 31, 2015			<u>\$1,093,440</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 \$0 is the same as reported by the Company as of December 31, 2015. 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.

5. SUBSEQUENT EVENTS

Effective January 1, 2016, the Company entered into a 100% quota share agreement with Security Mutual, whereby the Company cedes 100% of its business written in return for a 45% ceding commission.

6. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

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

<u>ITEM</u>	<u>PAGE NO.</u>
A. <u>Management</u>	
i. It was recommended that board members who are unable or unwilling to attend meetings consistently should resign or be replaced.	3
The Company has complied with this recommendation.	
ii. It was recommended that the Company maintain conflict of interest statements at its home office for each year subject to examination.	3
The Company has complied with this recommendation.	
B. <u>Accounts and Records</u>	
i. It was recommended that the Company send an acknowledgment to the claimant within 15 business days of receipt of notice of a claim, pursuant to the provisions of Part 216.4(a) of Department Regulation 64.	7
The Company had no reported claims during the examination period. Therefore, this recommendation is no longer applicable.	
ii. It was further recommended that the Company include in each claim file, all communications, transactions, notes and work papers relating to the claim, pursuant to the provisions of Part 216.11 of Department Regulation 64.	7
The Company had no reported claims during the examination period. Therefore, this recommendation is no longer applicable.	
C. <u>Aggregate Write-ins for Other Than Invested Assets – Annuity</u>	
i. It was recommended that the Company refrain from investing more than 10% of its admitted assets in any one institution pursuant to the provisions of Section 1409(a) of the New York Insurance Law.	11
The Company has complied with this recommendation.	

<u>ITEM</u>	<u>PAGE NO.</u>
ii. It was recommended that the Company report its investment in annuities at the lesser of the cash surrender value or 10% of its admitted assets, pursuant to the provisions of SSAP 21, and Sections 1409(a) and 1412(b) of the New York Insurance Law. The Company has complied with this recommendation.	11
iii. It was recommended that the Company properly classify its investments in annuities pursuant to the NAIC Property/Casualty Annual Statement Instructions. The Company has complied with this recommendation.	11
iv. It was recommended that the Company begin withdrawing the maximum amount that it can without penalty, until the outstanding balance is reduced to an amount that is in compliance with Section 1409(a) of the New York Insurance Law. The Company has complied with this recommendation.	11

7. **SUMMARY OF COMMENTS AND RECOMMENDATIONS**

This report contains no comments or recommendations.

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. 31539

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

Pittstown Cooperative 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 26th day of October, 2016

MARIA T. VULLO
Superintendent of Financial Services



By:

Joan M. Riddell

*Joan Riddell
Deputy Bureau Chief*