

REPORT ON EXAMINATION

OF

SECURITY MUTUAL INSURANCE COMPANY

AS OF

DECEMBER 31, 2015

DATE OF REPORT

NOVEMBER 23, 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 of Financial Services
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 31512 dated August 4, 2016, attached hereto, I have made an examination into the condition and affairs of Security Mutual Insurance Company as of December 31, 2015, and submit the following report thereon.

Wherever the designation “the Company” appears herein without qualification, it should be understood to indicate Security 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 2417 North Triphammer Road, Ithaca, NY 14850.

1. SCOPE OF EXAMINATION

The Department has performed an examination of Security Mutual Insurance 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. 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 a summary of significant findings for the following items as called for in the Handbook:

- Company history
- Management and control
- Territory and plan of operation
- Affiliated group description
- Reinsurance
- Financial statement presentation
- Loss review and analysis
- Significant subsequent events
- Summary of recommendations

A review was also made to ascertain what action was taken by the Company with regards 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 was organized on March 21, 1887, as the Tompkins County Co-operative Fire Insurance Company for the purpose of transacting business as a co-operative fire insurance corporation in Tompkins County, New York. Subsequently, the territorial limits of the Company were extended to include all of the Counties of this State, and wherever authorized by law, all U.S. states and the District of Columbia.

In 1935, the Company changed its name to the Tompkins Co-operative Fire Insurance Company.

In 1957, the Company absorbed by merger the West Seneca Mutual Fire Insurance Association.

On February 7, 1964, the Company absorbed by merger the Security Mutual Fire Insurance Company of Delhi, New York and, concurrently, changed its name to Security Mutual Fire Insurance Company. On December 31, 1964, the Company absorbed by merger the Canton Co-operative Fire Insurance Company, Canton, New York.

Effective February 18, 1975, the Company adopted its current title.

On April 27, 2004, pursuant to the provisions of Section 1307 of the New York Insurance Law, the Department approved the Company's request to issue a floating rate surplus note with a principal amount of \$5,000,000. The surplus note was issued on May 12, 2004, with a due date of June 17, 2034. The Department has approved quarterly payments of interest in each quarter of the examination period.

Effective April 1, 2014, the Company entered into an affiliation agreement with Pittstown Cooperative Fire Insurance Company ("Pittstown"), an assessment cooperative 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 nine 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 eleven members:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
W. David Banfield Lansing, NY	Retired
Robert J. Clune Ithaca, NY	Attorney, Williamson, Clune and Stevens
Delbert L. Hall Dryden, NY	Secretary and Treasurer, Security Mutual Insurance Company
Louis J. Hillegas Paoli, PA	Retired
Joan H. Holden Lansing, NY	Retired
Stephen M. James Binghamton, NY	Retired
William H. Maddren Cortland, NY	Retired
Catherine Mawicke Aurora, NY	Investment Broker, Wells Fargo Advisors
Thomas R. Ruane Ithaca, NY	President, Security Mutual Insurance Company
Roy E. Staley Ithaca, NY	Retired
Wilfred W. Wege Ballston Lake, NY	Retired

As of December 31, 2015, the principal officers of the Company were as follows:

<u>Name</u>	<u>Title</u>
Thomas R. Ruane	President
Delbert L. Hall	Secretary and Treasurer
Stephen M. James	Vice President

B. Territory and Plan of Operation

As of December 31, 2015, the Company was licensed to write business in New York.

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
19	Motor vehicle and 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, 41 and 66 of the New York Insurance Law, the Company is required to maintain a minimum surplus to policyholders in the amount of \$950,000.

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

<u>Calendar Year</u>	<u>Direct Premiums</u>	<u>Assumed Premiums</u>	<u>Total Gross Premiums</u>
2011	\$37,818,876	\$ 0	\$37,818,876
2012	\$38,902,155	\$243,604	\$39,145,759
2013	\$40,041,100	\$255,628	\$40,296,728
2014	\$41,093,531	\$262,117	\$41,355,648
2015	\$41,925,061	\$323,363	\$42,248,424

The Company's predominant lines of business are homeowners' multiple peril and commercial multiple peril, which accounted for 72.6% and 19.1%, respectively, of the Company's 2015 direct written business. The Company participates as a direct writer in any combination policy issued by New York Mutual Underwriters ("NYMU"). As of November 1997, the Company shares, with one other advance premium corporation, one-half of all NYMU's premiums, losses and expenses. NYMU's predominant lines of

business are fire, homeowners and commercial multiple peril lines of business. Approximately 9.06% of the Company's total direct written premiums were attributable to NYMU. At December 31, 2015, the Company wrote business through approximately 325 independent agents.

The Company's assumed business is attributable to its participation in the Regional Reciprocal Catastrophe Pool.

C. Reinsurance Ceded

The Company has structured its ceded reinsurance program as follows:

<u>Type of Treaty</u>	<u>Cession</u>
<u>Property</u> 1 layer	\$1,525,000 excess of \$250,000 ultimate net loss, per risk, subject to a limit of liability of \$4,575,000 each occurrence.
<u>Property Catastrophe</u> 6 layers	\$43,500,000 excess of \$1,500,000 ultimate net loss, each loss occurrence.
<u>Aggregate Catastrophe</u>	97.5% of \$2,000,000 excess of \$1,500,000 as respects net loss occurrences equal to or greater than \$250,000 (franchise deductible) up to but not greater than \$750,000.
<u>Boiler and Machinery</u>	100% of \$10,000,000 of equipment breakdown liability.
<u>Casualty</u> 2 layers	\$2,350,000 excess of \$150,000 ultimate net loss each loss occurrence.
<u>Umbrella</u> 2 layers First layer	95% of up to \$1,000,000 ultimate net loss each loss occurrence, each policy. In addition to these limits, the coverage extends to loss adjustment expense in the ratio the loss payment bears to the total ultimate net loss.
Second layer	\$4,000,000 excess of \$1,000,000 ultimate net loss each loss occurrence, each policy. In addition to these limits, the coverage extends to loss adjustment expense in the ratio the loss payment bears to the total ultimate net loss.

The Company has a facultative pro rata coverage in place up to \$1,000,000 for the portion of all policies that exceed \$1,775,000.

The Company also has a reinstatement premium protection coverage in place for the first two layers of the Company's property catastrophe excess of loss reinsurance contract.

It is the Company's policy to obtain the appropriate collateral for its cessions to unauthorized reinsurers. A review of letters of credit obtained by the Company to take credit for cessions to unauthorized reinsurers was performed for compliance with Department Regulation 133. No exceptions were noted.

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 the NAIC Accounting Practices and Procedures Manual, Statement of Statutory Accounting Principles ("SSAP") No. 62R.

D. Affiliated Group

In 1998, the Company organized a subsidiary, Security Mutual Brokers Services, Inc. ("SMBS") pursuant to Section 1603 of the New York Insurance Law and Part 81-1 of Department Regulation No. 53. SMBS was incorporated to act as a general insurance agency to accept applications for property and casualty insurance of all kinds.

Effective April 1, 2014 the Company entered into an affiliation agreement with Pittstown Cooperative Fire Insurance Company ("Pittstown"), an assessment cooperative 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

Pursuant to the terms and conditions of this agreement, the Company and Pittstown 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 to hold 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 non-objected to the implementation of these agreements.

E. Significant Ratios

The Company's 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	70%
Adjusted liabilities to liquid assets	51%
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>Ratios</u>
Losses and loss adjustment expenses incurred	\$95,956,379	57.44%
Other underwriting expenses incurred	66,447,330	39.77
Net underwriting gain	<u>4,657,118</u>	<u>2.79</u>
Premiums earned	<u>\$167,060,827</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	\$74,831,355	\$ 0	\$74,831,355
Common stocks	11,331,036	0	11,331,036
Properties occupied by the company	301,276	0	301,276
Cash, cash equivalents and short-term Investments	6,973,156	0	6,973,156
Other invested assets	1,000,000	1,000,000	0
Investment income due and accrued	628,100	0	628,100
Uncollected premiums and agents' balances in the course of collection	368,203	18,894	349,309
Deferred premiums, agents' balances and installments booked but deferred and not yet due	1,971,967		1,971,967
Amounts recoverable from reinsurers	478,544		478,544
Other amounts receivable under reinsurance contracts	24,457		24,457
Current federal and foreign income tax recoverable and interest thereon	297,741		297,741
Electronic data processing equipment and Software	493,631	327,384	166,247
Furniture and equipment, including health care delivery assets	142,848	142,848	0
Receivables from parent, subsidiaries and Affiliates	15,006	0	15,006
Company owned life insurance	2,298,217	0	2,298,217
Equities & deposits in pools & association	<u>1,305,612</u>	<u>8,787</u>	<u>1,296,825</u>
Total assets	<u>\$102,461,149</u>	<u>\$1,497,913</u>	<u>\$100,963,236</u>

Liabilities, surplus and other fundsLiabilities

Losses and loss adjustment expenses	\$ 24,788,630
Commissions payable, contingent commissions and other similar charges	742,000
Other expenses (excluding taxes, licenses and fees)	425,668
Taxes, licenses and fees (excluding federal and foreign income taxes)	31,348
Net deferred tax liability	247,244
Unearned premiums	21,702,038
Advance premium	762,330
Ceded reinsurance premiums payable (net of ceding commissions)	251,288
Amounts withheld or retained by company for account of others	1,155,916
Provision for reinsurance	25,009
Drafts outstanding	<u>2,085</u>
 Total liabilities	 \$ 50,133,556

Surplus and Other Funds

Special contingent fund	\$ 950,000
Surplus notes	5,000,000
Unassigned funds (surplus)	<u>44,879,680</u>
 Surplus as regards policyholders	 <u>50,829,680</u>
 Total liabilities, surplus and other funds	 <u>\$100,963,236</u>

Note: The Internal Revenue Service has completed its audits of the Company's federal income tax returns through tax year 2008. All material adjustments, if any, made subsequent to the date of examination and arising from said audits, are reflected in the financial statements included in this report. The Internal Revenue Service has not audited tax returns covering tax years 2009 through 2015. 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 \$13,429,303, as detailed below:

Underwriting Income

Premiums earned		\$167,060,827
Deductions:		
Losses and loss adjustment expenses incurred	\$95,956,379	
Other underwriting expenses incurred	<u>66,447,330</u>	
Total underwriting deductions		<u>162,403,709</u>
Net underwriting gain		\$ 4,657,118

Investment Income

Net investment income earned	\$10,291,460	
Net realized capital gain	<u>1,750,733</u>	
Net investment gain		12,042,193

Other Income

Finance and service charges not included in premiums	\$ 2,612,190	
Aggregate write-ins for miscellaneous income	<u>39,457</u>	
Total other income		<u>2,651,647</u>
Net income before federal and foreign income taxes		\$ 19,350,958
Federal and foreign income taxes incurred		<u>5,921,655</u>
Net income		\$ <u>13,429,303</u>

C. Capital and Surplus

Surplus as regards policyholders increased \$14,361,750 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			\$36,467,930
	<u>Gains in Surplus</u>	<u>Losses in Surplus</u>	
Net income	\$13,429,303		
Net unrealized capital gains or (losses)	2,095,770		
Change in net deferred income tax		\$ 221,673	
Change in non-admitted assets		795,596	
Change in provision for reinsurance	277,399		
Cumulative effect of changes in accounting principles	<u> </u>	<u>423,453</u>	
Total gains and losses	<u>\$15,802,472</u>	<u>\$1,440,722</u>	
Net increase in surplus			<u>14,361,750</u>
Surplus as regards policyholders as reported the Company as of December 31, 2015			<u>\$50,829,680</u>

No adjustments were made to surplus as result of this examination.

4. **LOSSES AND LOSS ADJUSTMENT EXPENSES**

The examination liability for the captioned items of \$24,788,630 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. **MARKET CONDUCT**

Reporting of Fire Losses to the Property Insurance Loss Register (“PILR”)

Pursuant to Section 318(a) of the New York Insurance Law and Parts 62-2.0 and 62-2.2 of Department Regulation 96, insurers must report fire losses in excess of \$1,000 to the PILR within five business days following receipt of notice of loss.

A review of 30 fire losses that exceeded the reporting threshold for PILR notification indicated that for 7 of those losses, notification was either not sent, or was not sent in a timely manner.

A similar finding and recommendation were also noted in the prior examination. It is again recommended that the Company report all fire losses in excess of \$1,000 to the PILR within five business days following receipt of notice of loss, pursuant to the provisions of Section 318(a) of the New York Insurance Law and Parts 62-2.0 and 62-2.2 of Department Regulation 96.

6. **SUBSEQUENT EVENTS**

Subsequent to the examination date, effective January 1, 2016, the Company entered into a 100% quota share agreement with Pittstown, whereby Pittstown cedes 100% of all its business written in return for a 45% ceding commission.

7. 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>Territory and Plan of Operation</u>	
It was recommended that the Company refrain from writing kinds of insurance for which it is not licensed pursuant to Section 1113(a) of the New York Insurance Law.	6
The Company has complied with this recommendation.	
B. <u>Accounts and Records</u>	
i. It was recommended that the Company report its share of premiums collected by NYMU, but not yet remitted to the Company as an admitted asset under the caption "Equities and deposits in pools and associations" pursuant to paragraph 10 of SSAP 63.	10
The Company has complied with this recommendation.	
ii. It was recommended that the Company report its share of advance premiums collected by NYMU pursuant to the provisions of paragraph 8 of SSAP 63.	10
The Company has complied with this recommendation.	
C. <u>Losses and Loss Adjustment Expenses</u>	
i. It was recommended that the Company improve its internal data procedures to capture the lead paint claims data separately from its other data.	14
The Company has complied with this recommendation.	
ii. It was recommended that the Company's independent actuaries include a lead paint claims reserve as a separate item in the actuarial report.	14
The Company has complied with this recommendation.	

<u>ITEM</u>	<u>PAGE NO.</u>
D. <u>Market Conduct</u>	
i. It was recommended that the Company refrain from cancelling homeowner's personal lines policies based solely on the property becoming vacant, pursuant to Section 3425(c)(2)(E) of the New York Insurance Law and Department Circular Letter 23 (2008).	15
The Company has complied with this recommendation.	
ii. It was recommended that the Company report all fire losses in excess of \$1,000 to the PILR within five business days following receipt of notice of loss, pursuant to the provisions of Section 318(a) of the New York Insurance Law and Parts 62-2.0 and 62-2.2 of Department Regulation 96.	16
The Company has not complied with this recommendation. A similar comment is made in this report.	

8. SUMMARY OF COMMENTS AND RECOMMENDATIONS

<u>ITEM</u>	<u>PAGE NO.</u>
A. <u>Market Conduct</u>	
It is again recommended that the Company report all fire losses in excess of \$1,000 to the PILR within five business days following receipt of notice of loss, pursuant to the provisions of Section 318(a) of the New York Insurance Law and Parts 62-2.0 and 62-2.2 of Department Regulation 96.	13

Respectfully submitted,

_____/S/
Sheik Mohamed, CPA
Associate Insurance Examiner

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

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. 31512

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

Security 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 4th day of August, 2016

MARIA T. VULLO
Superintendent of Financial Services



By:

Joan P. Riddell

Joan Riddell
Deputy Bureau Chief