

REPORT ON EXAMINATION

OF

WASHINGTON COUNTY CO-OPERATIVE INSURANCE COMPANY

AS OF

DECEMBER 31, 2017

DATE OF REPORT

APRIL 26, 2019

EXAMINER

LAMIN JAMMEH

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Department of Financial Services

ANDREW M. CUOMO
Governor

LINDA A. LACEWELL
Superintendent

August 14, 2020

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 31826 dated September 26, 2018 attached hereto, I have made an examination into the condition and affairs of Washington County Co-operative 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 Washington County Co-operative 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 33-55 Main Street, Greenwich, NY 12834.

1. SCOPE OF EXAMINATION

The Department has performed an examination of the Washington County Co-operative Insurance 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

Washington County Co-operative Insurance Company was organized on March 30, 1858 as the Easton Mutual Insurance Company for the purpose of transacting business as an assessment co-operative fire insurance company in the Town of Easton, Washington County, New York.

Under an agreement of merger dated January 23, 1961, the corporate title of the Company was changed to the Washington County Co-operative Fire Insurance Company. On May 7, 1986, the Department approved an amendment to the certificate of incorporation to change the corporate title of the Company to Washington County Co-operative Insurance Company. Between 1961 and 2005, the Company merged with various insurance companies through merger agreements approved by the Department. The latest merger between the Company and Salem Mutual Town Fire Insurance Company became effective on March 31, 2005.

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 11 nor more than 20 members. The board meets four times during each calendar year. At December 31, 2017, the board of directors was comprised of the following 12 members:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Neil Adams Shushan, NY	Farmer
Eric Allen Schaghticoke, NY	Farm Machinery Repair
Raymond Earl Horton Cambridge, NY	Farmer Director of New York State Tractor Pullers
Douglas Maxwell Cambridge, NY	Farmer
James McClay Greenwich, NY	Retired Teacher
Michael Nolan Cambridge, NY	Farmer

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Brian Mercure Granville, NY	Farmer
Travis Rea Cambridge, NY	Farmer
James Reeve Valley Falls, NY	Retired Farmer/Truck Driver
Donald Skellie Greenwich, NY	Retired Farmer
Clifford Stewart Greenwich, NY	Retired Farmer
Bruce Whitney Fort Ann, NY	Farmer/County Worker

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

<u>Name</u>	<u>Title</u>
James Reeve	President
Scott MacNeil	Executive Vice President/Manager
James McClay	Secretary
Donald Skellie	Treasurer
Clifford Stewart	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:

<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

<u>Paragraph</u>	<u>Line of Business</u>
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

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

Based upon the lines of business for which the Company is licensed and the Company's current capital structure, 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 \$150,000.

The Company did not assume business during the exam period. The following schedule shows the premiums written by the Company for the period under examination:

<u>Calendar Year</u>	<u>Total Gross Premiums</u>
2013	\$2,653,602
2014	\$2,731,467
2015	\$2,798,180
2016	\$2,891,400
2017	\$2,939,163

The Company's major lines of business are homeowners' multiple peril, fire and farm-owners' multiple peril, which accounted for 42.7%, 21.0% and 17.6%, respectively, of premiums written in 2017. The Company writes mainly through 14 agents and brokers concentrated in the northeastern part of New York State in close proximity to the Company's home office.

C. Reinsurance Ceded

The Company has structured its ceded reinsurance program as follows:

<u>Type of Treaty</u>	<u>Cession</u>
<u>Multiple Line Excess of Loss</u> (3 Layers) <u>Property</u>	\$925,000 each loss, each risk in excess of \$75,000 ultimate net loss, subject to a limit of liability of \$1,850,000 each loss occurrence.

<u>Type of Treaty</u>	<u>Cession</u>
<u>Casualty</u>	\$925,000 in excess of \$75,000 ultimate net loss each loss occurrence.
<u>Property and Casualty Combined</u>	\$75,000 in excess of \$75,000 ultimate net loss each loss occurrence, involving at least one casualty policy and at least one property policy subject to the contract.
<u>Casualty Clash Excess of Loss</u>	\$1,000,000 in excess of \$1,000,000 ultimate net loss each loss 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 have first sustained an Ultimate Net Loss in excess of \$2,000,000. The Reinsurer shall then reimburse the Company for the whole of such excess.
<u>Property Catastrophe Excess</u> (2 Layers)	95% of \$900,000 excess of \$100,000 ultimate net loss each loss occurrence which involves three or more risks. 100% ultimate net loss in excess of \$1,000,000 each loss occurrence which involves three or more risks.
<u>Property Facultative Pro Rata</u>	Cessions shall be limited to an amount equal to two times the Company's net retention plus the amount ceded to the Company's working reinsurance contracts, subject to a minimum net retention of \$250,000 and to a maximum cession hereunder of \$1,000,000 on any one risk.
<u>Casualty Excess of Loss Facultative</u>	\$1,000,000 in excess of \$1,000,000 ultimate net loss, each loss occurrence, each policy.

In addition, the Company maintains quota share coverage whereby it cedes 100% of the liability and premium for its equipment breakdown business written on its policies and endorsements for equipment breakdown. Cessions by the Company for this coverage limits the liability to the reinsurer to \$5,000,000 on any one risk without prior written agreement of the reinsurer.

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. All of the Company's reinsurers were authorized.

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. Holding Company System

The Company is 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	30%
Adjusted liabilities to liquid assets	31%
Two-year overall operating	71%

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>Ratio</u>
Losses and loss adjustment expenses incurred	\$3,968,547	53.03%
Other underwriting expenses incurred	2,619,682	35.01%
Net underwriting gain (loss)	<u>895,488</u>	<u>11.97%</u>
Premiums earned	<u>\$7,483,717</u>	<u>100.00%</u>

The Company's reported risk-based capital ("RBC") score was 3,088.2% at December 31, 2017. The RBC score 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 score 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

	<u>Assets</u>	<u>Nonadmitted</u> <u>Assets</u>	<u>Net Admitted</u> <u>Assets</u>
Bonds	\$7,517,188	\$ 0	\$7,517,188
Common stocks (stocks)	8,996	0	8,996
Properties occupied by the company	46,304	0	46,304
Cash, cash equivalents and short-term investments	423,477	0	423,477
Investment income due and accrued	54,205	0	54,205
Uncollected premiums and agents' balances in the course of collection	39,594	530	39,064
Deferred premiums, agents' balances and installments booked but deferred and not yet due	292,971	0	292,971
Amounts recoverable from reinsurers	653	0	653
Current federal and foreign income tax recoverable and interest thereon	49,895	0	49,895
Net deferred tax asset	164,928	47,510	117,418
Electronic data processing equipment and software	11,808	2,449	9,359
Furniture and equipment, including health care delivery assets	<u>17,622</u>	<u>17,622</u>	<u>0</u>
Total assets	<u>\$8,627,641</u>	<u>\$68,111</u>	<u>\$8,559,530</u>

Liabilities, Surplus and Other FundsLiabilities

Losses and loss adjustment expenses	\$ 516,214
Commissions payable, contingent commissions and other similar charges	150,588
Other expenses (excluding taxes, licenses and fees)	57,346
Unearned premiums	1,465,113
Advance premium	31,042
Ceded reinsurance premiums payable (net of ceding commissions)	56,553
Amounts withheld or retained by company for account of others	1,280
Pension plan liability	554,638
Liability for pension benefits	<u>(78,419)</u>
Total liabilities	\$2,754,355

Surplus and Other Funds

Minimum required surplus	\$ 100,000
Unassigned funds (surplus)	<u>5,705,174</u>
Surplus as regards policyholders	<u>5,805,174</u>
Total liabilities, surplus and other funds	<u>\$8,559,529</u>

Note: The Internal Revenue Service did not audit the Company's federal income tax returns during 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 \$1,132,590 as detailed below:

Underwriting Income

Premiums earned		\$7,483,717
Deductions:		
Losses and loss adjustment expenses incurred	\$3,968,547	
Other underwriting expenses incurred	<u>2,619,682</u>	
Total underwriting deductions		<u>6,588,229</u>
Net underwriting gain or (loss)		\$ 895,488

Investment Income

Net investment income earned	\$1,019,257	
Net realized capital gains (losses)	<u>44,425</u>	
Net investment gain or (loss)		1,063,682

Other Income

Finance and service charges not included in premiums	\$56,236	
Total other income		<u>56,236</u>
Net income before dividends to policyholders and before federal income taxes		\$2,015,406
Dividends to policyholders		<u>277,852</u>
Net income after dividends to policyholders but before federal income taxes		\$1,737,554
Federal income taxes incurred		<u>604,964</u>
Net income		<u>\$1,132,590</u>

C. Capital and Surplus

Surplus as regards policyholders increased \$991,297 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			\$4,813,877
	<u>Gains in Surplus</u>	<u>Losses in Surplus</u>	
Net income	\$1,132,590		
Net unrealized capital gains or (losses)		\$ 1,587	
Change in net deferred income tax		85,132	
Change in nonadmitted assets	104,620		
Cumulative effect of changes in accounting principles		66,705	
Change in unassigned funds for pension liability adjustment	<u>0</u>	<u>92,489</u>	
Total gains and losses	\$1,237,210	\$245,913	
Net increase (decrease) in surplus			<u>991,297</u>
Surplus as regards policyholders, as reported by the Company as of December 31, 2017			<u>\$5,805,174</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 \$516,214 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.

5. 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>Reinsurance</u>	
i. It was again recommended that the Company submit to the Department any new reinsurance contracts or amendments to its reinsurance contracts whenever the amount of its gross reinsurance premiums exceeds fifty percent of its unearned premiums at the beginning of the year, pursuant to the provisions of Section 1308(e)(1) of the New York Insurance Law.	5
The Company has complied with this recommendation.	
ii. It was recommended that the Company comply with the requirements set forth in their reinsurance contracts and provide each reinsurer with such information as may be required for completion of the reinsurer's NAIC annual statement.	5
The Company has complied with this recommendation.	
B. <u>Accounts and records</u>	
i. It was again recommended that the Company assign proper NAIC designations to its owned securities reported in Schedule D Part 1 of its filed annual statements in order to comply with the SVO Purposes and Procedures Manual and the NAIC Annual Statement Instructions.	9
The Company has complied with this recommendation.	
ii. It was recommended that the Company implement proper internal controls that will ensure each claim file contains evidence that the Company is in compliance with the requirements of Part 216.4(a) of Department Regulation 64.	9
The Company has complied with this recommendation.	
iii. It was recommended that the Company implement proper internal controls that will ensure the Company is in compliance with the requirements of 216.6(g) of Department Regulation 64.	9
The Company has complied with this recommendation.	

<u>ITEM</u>	<u>PAGE NO.</u>
iv. It was recommended that the Company maintain claim files in a manner that will facilitate compliance with the requirements of Part 216.11 of Department Regulation 64. It was also recommended that the Company implement proper internal controls that will ensure that both the claim file and the electronic database reflect all communications and transactions relating to the claim.	9
The Company has complied with this recommendation	
C. <u>Risk Management and Internal Controls</u>	
i. It was recommended that the Company fully document each risk mitigation strategy in order for examiners to evaluate the existence of controls in place at the Company and to determine whether the control procedures are operating as expected, applied throughout the entire period of reliance and performed on a timely basis.	11
The Company has complied with this recommendation.	
ii. It was recommended that the Company strengthen its IT controls.	11
The Company has complied with this recommendation.	

6. SUMMARY OF COMMENTS AND RECOMMENDATIONS

This report on examination does not contain any comments or recommendations.

Respectfully submitted,

_____/S/_____
Lamin Jammeh
Senior Insurance Examiner

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

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

_____/S/_____
Lamin Jammeh

Subscribed and sworn to before me

this _____ day of _____, 2020

APPOINTMENT NO. 31826

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:

Lamin Jammeh

as a proper person to examine the affairs of the

Washington County 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 26th day of September, 2018

MARIA T. VULLO
Superintendent of Financial Services



By:

Joan P. Riddell

Joan Riddell
Deputy Bureau Chief