

REPORT ON EXAMINATION

OF

ONTARIO INSURANCE COMPANY

AS OF

DECEMBER 31, 2018

DATE OF REPORT

MARCH 11, 2020

EXAMINER

LAMIN JAMMEH

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## Department of Financial Services

**ANDREW M. CUOMO**  
Governor

**LINDA A. LACEWELL**  
Superintendent

March 11, 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 32001 dated September 9, 2019, attached hereto, I have made an examination into the condition and affairs of Ontario Insurance Company as of December 31, 2018, and submit the following report thereon.

Wherever the designation “the Company” appears herein without qualification, it should be understood to indicate Ontario 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 28 Canandaigua Street, Shortsville, NY 14548.

## 1. SCOPE OF EXAMINATION

The Department has performed an examination of Ontario Insurance Company. The Company is by definition a multi-state insurance company even though it is only licensed in the State of New York. A property/casualty company is considered a multi-state insurer if it reinsures business covering risks residing in two or more states. This Company assumes an immaterial amount of business with risks residing in at least two states.

The previous examination was conducted as of December 31, 2013. This examination covered the five-year period from January 1, 2014 through December 31, 2018. 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 recommendation 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 as the Ontario County Patrons' Fire Relief Association in 1877 and reorganized in 1879 to transact insurance business in Ontario County, New York. On December 23, 1970, the Department approved the Company's certificate of amendment of the Certificate of Incorporation changing the name to the Ontario-Yates Insurance Company.

On April 1, 1995, the Department approved the conversion, pursuant to Section 7305 of the New York Insurance Law, of the Company from an assessment cooperative property casualty insurance company to an advance premium cooperative property casualty insurance company.

On January 19, 2001, the Department approved an amendment to the Company's Certificate of Incorporation changing the name of the Company to Ontario Insurance Company.

### 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 sixteen members. In 2018, the board met quarterly. At December 31, 2018, the board of directors was comprised of the following nine members:

| <u>Name and Residence</u>             | <u>Principal Business Affiliation</u>                |
|---------------------------------------|--|
| Kenneth Bersani<br>Fairport, NY       | Managing Partner,<br>Trevett Cristo Attorneys        |
| Joseph Bridgeford<br>Canandaigua, NY  | Chief Executive Officer,<br>BlackBox Biometrics Inc. |
| Bruce Croucher<br>Clifton Springs, NY | Retired  |
| Keith Fry<br>Farmington, NY           | President,<br>Ontario Insurance Company              |
| Christopher Johnson<br>Rochester, NY  | Partner,<br>EFP Rotenberg                            |
| Patricia Pavelsky<br>Honeoye, NY      | Retired  |

| <u>Name and Residence</u>             | <u>Principal Business Affiliation</u> |
|---------------------------------------|---------------------------------------|
| Russell Pilato<br>Clifton Springs, NY | Retired                               |
| Robert Spinelli<br>Rochester, NY      | Retired                               |
| William Wright<br>Canandaigua, NY     | Supervisor,<br>Ontario County         |

As of December 31, 2018, the principal officers of the Company were as follows:

| <u>Name</u>        | <u>Title</u>                                       |
|--------------------|--|
| Keith Fry          | President, Chief Executive Officer & Treasurer     |
| Alan Fry           | Executive Vice President & Chief Operating Officer |
| Paula Bartishevich | Corporate Secretary                                |

Subsequent to the examination date, in April 2019, Keith Fry resigned and was replaced by Alan Fry as President, Chief Executive Officer & Treasurer. The position of Executive Vice President & Chief Operating Officer was eliminated.

B. Territory and Plan of Operation

As of December 31, 2018, 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      |
| 10               | Elevator                  |
| 11               | Animal                    |
| 12               | Collision                 |
| 13               | Personal injury liability |
| 14               | Property damage liability |

| <u>Paragraph</u> | <u>Line of Business</u>                    |
|------------------|--|
| 19               | Motor vehicle and aircraft physical damage |
| 20               | Marine and inland marine (inland only)     |
| 32               | Substantially similar kind of insurance    |

The Company may also accept and cede reinsurance, as provided in its charter, and pursuant to Section 6606(a)(1) of the New York Insurance Law. Section 6606(a)(1) of the New York Insurance Law states, in part:

“ . . . any co-operative property/casualty insurance company shall have the power, whether or not expressed in its charter, to accept reinsurance of the kind or kinds of insurance it is licensed to do directly, and to cede reinsurance . . . ”

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 \$560,924.

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> |
|----------------------|------------------------|-------------------------|-----------------------------|
| 2014                 | \$4,658,709            | \$ 0                    | \$4,658,709                 |
| 2015                 | \$4,787,119            | \$23,238                | \$4,810,357                 |
| 2016                 | \$5,254,916            | \$26,298                | \$5,281,214                 |
| 2017                 | \$5,608,894            | \$24,992                | \$5,633,886                 |
| 2018                 | \$5,866,849            | \$34,765                | \$5,901,614                 |

The Company’s assumed premiums represent the Company’s participation in the NAMICO Reinsurance Facility, a voluntary pool.

The Company’s predominant lines of business are commercial multiple peril, homeowners multiple peril, farmowners multiple peril, and fire, which accounted for approximately 49%, 28%, 9%, and 6%, respectively, of the 2018 direct premium writings. The business is produced through approximately 96 independent agents at 197 locations and three brokerage firms.

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>              | <p><u>Property Business</u>: \$800,000 excess of \$200,000 each loss, each risk; limit \$1,600,000 each loss occurrence.</p> <p><u>Casualty Business</u>: \$850,000 excess \$150,000 each loss occurrence.</p> <p><u>Casualty and Property combined</u>: In the event of a loss occurrence involving at least one property and one casualty policy: \$150,000 excess \$200,000 each loss occurrence.</p> <p><u>Casualty and Umbrella combined</u>: In the event of a loss occurrence involving at least one casualty and one umbrella policy: \$150,000 excess \$50,000 each loss occurrence.</p> <p><u>Casualty Clash</u>: \$1,000,000 excess of \$1,000,000 each loss occurrence.</p> |
| <u>Property Catastrophe Excess</u><br>(2 layers) |   |
| Layer 1  | <p>100% of \$300,000 excess \$200,000 initial ultimate net loss each loss occurrence (involving three or more risks).<br/>Subsequent loss occurrence: 100% of \$400,000 excess \$100,000 each subsequent occurrence; subject to an aggregate limit from all occurrences of \$700,000 during the term of the contract.</p>   |
| Layer 2  | <p>\$2,500,000 excess of \$500,000 each loss occurrence.</p>  |
| <u>Aggregate Excess of Loss</u>                  | <p>The reinsurer shall be liable for the amount by which the Company's aggregate ultimate net loss exceeds the Company's retention of an aggregate amount of ultimate net loss equal to 62.5% of the net loss ratio.</p>  |
| <u>Umbrella Quota Share</u><br>2 layers          | <p>As respects each policy, the Company shall retain as its own net retention a 5.0% quota share part of the first \$1,000,000 of the policy limit and shall cede to the reinsurer and the reinsurer shall accept the remaining 95% (95.0% share of the first \$1,000,000 of policy limit.) The Company shall cede and the reinsurer shall accept 100% of the next \$2,000,000 of policy limit excess of \$1,000,000 of policy limit. The liability of the reinsurer shall not exceed an annual aggregate limit of \$10,000,000, inclusive of loss adjustment expense, during the term of the contract, for all acts of terrorism.</p>  |

The Company cedes its business to authorized 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 an attestation from the Company's Chief Executive Officer and Secretary 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, 2018, 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 | 37%           |
| Adjusted liabilities to liquid assets          | 25%           |
| Two-year overall operating                     | 74%           |

Underwriting Ratios

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

|  | <u>Amount</u>       | <u>Ratio</u>   |
|--|---------------------|----------------|
| Losses and loss adjustment expenses incurred | \$11,296,446        | 54.04%         |
| Other underwriting expenses incurred         | 7,664,623           | 36.66%         |
| Net underwriting gain (loss)                 | <u>1,944,156</u>    | <u>9.30%</u>   |
| Premiums earned                              | <u>\$20,905,225</u> | <u>100.00%</u> |

The Company's reported risk-based capital ("RBC") score was 3,384.20% at December 31, 2018. 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 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, 2018 as reported by the Company:

| <u>Assets</u>  | <u>Assets</u>       | <u>Assets<br/>Not Admitted</u> | <u>Net Admitted<br/>Assets</u> |
|--|---------------------|--------------------------------|--------------------------------|
| Bonds  | \$14,579,373        | \$ 0                           | \$14,579,373                   |
| Common stocks  | 1,930,636           | 0                              | 1,930,636                      |
| Properties occupied by the company   | 328,625             | 0                              | 328,625                        |
| Cash, cash equivalents and short-term investments  | 812,866             | 0                              | 812,866                        |
| Investment income due and accrued  | 95,593              | 0                              | 95,593                         |
| Uncollected premiums and agents' balances in the course of collection                    | 89,092              | 72,909                         | 16,183                         |
| Deferred premiums, agents' balances and installments booked but deferred and not yet due | 766,369             | 0                              | 766,369                        |
| Amount recoverable from reinsurers   | 13,175              | 0                              | 13,175                         |
| Net deferred tax asset   | 67,114              | 0                              | 67,114                         |
| Electronic data processing equipment and software  | 6,365               | 0                              | 6,365                          |
| Furniture and equipment, including health care delivery assets                           | 5,236               | 5,236                          | 0                              |
| FAIR plan  | 25,570              | 2,934                          | 22,636                         |
| NAMICO ASL pool  | 39,246              | 0                              | 39,246                         |
| Prepaid expenses   | 12,331              | 12,331                         | 0                              |
| Aggregate write-ins other assets   | <u>3,308</u>        | <u>0</u>                       | <u>3,308</u>                   |
| Total assets   | <u>\$18,774,899</u> | <u>\$93,410</u>                | <u>\$18,681,489</u>            |

Liabilities, surplus and other fundsLiabilities

|   |              |
|---|--------------|
| Losses and loss adjustment expenses                                   | \$ 1,500,079 |
| Commissions payable, contingent commissions and other similar charges | 332,583      |
| Other expenses (excluding taxes, licenses and fees)                   | 174,855      |
| Taxes, licenses and fees (excluding federal and foreign income taxes) | 3,072        |
| Current federal and foreign income taxes                              | 23,495       |
| Unearned premiums   | 2,886,979    |
| Advance premium   | 116,800      |
| Ceded reinsurance premiums payable (net of ceding commissions)        | (85,033)     |
| Amounts withheld or retained by company for account of others         | 107,428      |
| Pension liability-FAIR plan   | <u>6,770</u> |
| Total liabilities   | \$ 5,067,028 |

Surplus and Other Funds

|  |                      |
|--|----------------------|
| Special surplus funds                      | \$ 560,924           |
| Unassigned funds (surplus)                 | <u>13,053,537</u>    |
| Surplus as regards policyholders           | <u>13,614,461</u>    |
| Total liabilities, surplus and other funds | \$ <u>18,681,489</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 \$2,844,733, as detailed below:

Underwriting Income

|  |                  |                   |
|--|------------------|-------------------|
| Premiums earned                              |                  | \$20,905,225      |
| Deductions:                                  |                  |                   |
| Losses and loss adjustment expenses incurred | \$11,296,446     |                   |
| Other underwriting expenses incurred         | <u>7,664,623</u> |                   |
| Total underwriting deductions                |                  | <u>18,961,069</u> |
| Net underwriting gain or (loss)              |                  | \$ 1,944,156      |

Investment Income

|                               |                |           |
|-------------------------------|----------------|-----------|
| Net investment income earned  | \$ 1,254,167   |           |
| Net realized capital gain     | <u>226,503</u> |           |
| Net investment gain or (loss) |                | 1,480,670 |

Other Income

|   |              |                     |
|---|--------------|---------------------|
| Net gain or (loss) from agents' or premium balances charged off                         | \$ 39,030    |                     |
| Finance and service charges not included in premiums                                    | 322,828      |                     |
| Aggregate write-ins for miscellaneous income  | <u>4,114</u> |                     |
| Total other income  |              | <u>365,972</u>      |
| Net income after dividends to policyholders but before federal and foreign income taxes |              | \$ 3,790,798        |
| Federal and foreign income taxes incurred   |              | <u>946,065</u>      |
| Net income  |              | \$ <u>2,844,733</u> |

C. Capital and Surplus Account

Surplus as regards policyholders increased \$2,715,461 during the five-year examination period January 1, 2014 through December 31, 2018 as reported by the Company, detailed as follows:

|  |                    |                  |                     |
|--|--------------------|------------------|---------------------|
| Surplus as regards policyholders, as reported by the Company as of December 31, 2013 |                    |                  | \$10,899,000        |
|  | <u>Gains in</u>    | <u>Losses in</u> |                     |
|  | <u>Surplus</u>     | <u>Surplus</u>   |                     |
| Net income   | \$2,844,733        |                  |                     |
| Net unrealized capital gains or (losses)   |                    | \$ 30,324        |                     |
| Change in net deferred income tax  |                    | 100,220          |                     |
| Change in nonadmitted assets   | 5,227              |                  |                     |
| Aggregate write-ins for gains and losses in surplus                                  | <u>0</u>           | <u>3,955</u>     |                     |
| Total gains and losses   | <u>\$2,849,960</u> | <u>\$134,499</u> |                     |
| Net increase (decrease) in surplus   |                    |                  | <u>2,715,461</u>    |
| Surplus as regards policyholders, as reported by the Company as of December 31, 2018 |                    |                  | <u>\$13,614,461</u> |

#### 4. **LOSSES AND LOSS ADJUSTMENT EXPENSES**

The examination liability for the captioned items of \$1,500,079 is the same as reported by the Company as of December 31, 2018. 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**

On March 11, 2020, the World Health Organization declared an outbreak of a novel coronavirus (“COVID-19”) pandemic. The risks and uncertainties surrounding the COVID-19 pandemic may impact the Company’s, and its competitors’, operational and financial performance. The extent of the impact of the COVID-19 pandemic on the Company’s operational and financial performance will depend on certain developments, including the duration and spread of the outbreak, regulatory decisions, and the impact on the financial markets. All of these developments are uncertain and cannot be predicted. The related financial impact cannot be reasonably estimated at this time.

**6. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION**

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

| <u>ITEM</u> |   | <u>PAGE NO.</u> |
|-------------|---|-----------------|
| A.          | It was recommended that the Company fully comply with the requirements of Section 1411(a) of the New York Insurance Law and that going forward have all investment transactions entered into the board minutes to ensure that all investments are authorized or approved by its board of directors or a committee thereof responsible for supervising or making such investments. | 8               |

The Company has complied with this recommendation.

**7. SUMMARY OF COMMENTS AND RECOMMENDATIONS**

This report on examination contains no 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. 32001**

**NEW YORK STATE**  
**DEPARTMENT OF FINANCIAL SERVICES**

I, **Linda A. Lacewell**, 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

**Ontario 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 9th day of September, 2019

**LINDA A. LACEWELL**  
Superintendent of Financial Services



By:

*Joan P. Riddell*

Joan Riddell  
Deputy Bureau Chief