

REPORT ON EXAMINATION

OF

UNITED FRONTIER MUTUAL INSURANCE COMPANY

AS OF

DECEMBER 31, 2019

DATE OF REPORT

JANUARY 29, 2021

EXAMINER

LEON W. TAMBUE

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Department of Financial Services

ANDREW M. CUOMO
Governor

LINDA A. LACEWELL
Superintendent

January 29, 2021

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 32088 dated May 13, 2020 attached hereto, I have made an examination into the condition and affairs of United Frontier Mutual Insurance Company as of December 31, 2019, and submit the following report thereon.

Wherever the designation “the Company” appears herein without qualification, it should be understood to indicate United Frontier 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 remotely due to the Governor’s Executive Order of New York State on PAUSE regarding the COVID-19 pandemic.

1. SCOPE OF EXAMINATION

The Department has performed an examination of United Frontier Mutual Insurance Company. Although the Company is licensed solely in New York, the Company is by definition a multi-state insurer because a property/casualty company is considered to be 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, 2014. This examination covered the five-year period from January 1, 2015 through December 31, 2019. 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, 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
- Reinsurance
- Holding company description
- 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 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

United Frontier Mutual Insurance Company was incorporated under the laws of the State of New York in 1877 as The Farmers Mutual Insurance Company of Orleans and Niagara Counties, for purposes of transacting business as an assessment cooperative fire insurance company. In 1970, the Department permitted the Company to change its name to the Niagara Orleans Mutual Insurance Company.

On January 1, 1984, the Department issued a certificate permitting the Company to do business as an advance premium cooperative insurance company and to issue non-assessable policies.

On July 1, 1986, the Niagara and Erie County Farmers' Protective Association merged into the Company. On January 1, 1987, the Frontier Co-operative Fire Insurance Company merged into the Company. The merged companies at this time petitioned the Superintendent for approval to change the Company's name to the United Frontier Mutual Insurance Company. Permission was granted for the use of the new name effective January 1, 1987.

On July 1, 1999, The Alliance Mutual Insurance Company merged into the 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 25 members. The board meets four times during each calendar year. At December 31, 2019, the board of directors was comprised of the following 13 members:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
David Wayne Cloy Ransomville, NY	Retired
Carolyn Rustay Flansburg Albion, NY	Assistant Secretary and Accountant, United Frontier Mutual Insurance Company
John Charles Gavenda Albion, NY	Attorney and College Professor, John Gavenda Attorney at Law
Kathleen Ann Haley Lockport, NY	Business Owner, K. Haley Accounting Services

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Lynn George Hill Albion, NY	Town Councilman, Town Board of Town of Barre
Anthony Alfred Kubera Hamburg, NY	Retired
John William Long Albion, NY	Retired
Glenn Delbert Maxon Holley, NY	School Bus Driver, Holley School District
David Harry Muck Williamsville, NY	Retired
Pamela Joy Nelligan Williamsville, NY	Founder and Chief Software Architect, Standish LLC
Edward Paul Urbanik Lyndonville, NY	Vice President Portfolio Manager, Farm Credit East ACA
Elaine Bont Wendt Newfane, NY	Retired
Thomas Stephan Wronski Lockport, NY	President, United Frontier Mutual Insurance Company

As of December 31, 2019, the principal officers of the Company were as follows:

<u>Name</u>	<u>Title</u>
Thomas Stephan Wronski	President
Elaine Bont Wendt	Secretary
Carol Ann Wunderlich	Treasurer
Jean Marie Petronio	Vice President

B. Territory and Plan of Operation

As of December 31, 2019, the Company was licensed to write business solely 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
19	Motor vehicle and aircraft physical damage
20	Marine and inland marine (inland only)

Based upon the lines of business for which the Company is licensed, and pursuant to the requirements of Articles 13 and 41 of the New York Insurance Law, the Company is required to maintain a minimum surplus to policyholders in the amount of \$581,792.

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>
2015	\$4,676,103	\$308,555	\$4,984,658
2016	\$4,743,218	\$305,959	\$5,049,177
2017	\$5,519,856	\$296,847	\$5,816,703
2018	\$6,261,460	\$297,253	\$6,558,713
2019	\$6,650,749	\$287,861	\$6,938,610

As of December 31, 2019, the Company wrote insurance primarily through independent agents. The Company's major lines of business are commercial multiple peril, homeowners multiple peril, and fire, which accounted for approximately 66%, 14%, and 13% of the Company's 2019 direct written premiums, respectively.

Assumed premiums reflect the Company's participation in the NAMICO Reinsurance Facility ("NAMICO") as well as assumptions from the Mutual Reinsurance Bureau Regional Reciprocal Catastrophe Pool ("RRCP"). NAMICO provides reinsurance on directors and officers liability and insurance company professional liability insurance policies. Under the RRCP, the Company reinsures its pro-rata share of a catastrophe pool. The Company's assumed reinsurance business is consistent with the prior examination.

C. Reinsurance Ceded

The Company has structured its ceded reinsurance program as follows:

<u>Type of Treaty</u>	<u>Cession</u>
<u>Property Excess of Loss</u> 2 layers	\$800,000 excess of 200,000 each loss, each risk; liability of the reinsurer not to exceed \$600,000 and \$1,000,000 ultimate net loss each loss occurrence for the first and second layers, respectively.
<u>Property Catastrophe Excess of Loss</u> 2 layers	100% of ultimate net loss over and above an initial ultimate net loss of \$350,000 each loss occurrence; subject to a limit of liability to the reinsurer of 100% of \$4,650,000 each loss occurrence. Provides coverage for losses involving three or more risks.
<u>Property and Casualty Combined</u>	\$150,000 in excess of \$200,000 each loss occurrence in the event of a loss occurrence involving at least one casualty and at least one property policy.
<u>Property and Casualty Aggregate Excess of Loss</u>	Covers in the aggregate, 100% of the ultimate net loss over and above an initial ultimate net loss equal to 60% of gross net earned premium income.
<u>Casualty Excess of Loss</u> 2 layers	\$850,000 in excess of \$150,000 each loss occurrence.
<u>Casualty Clash Excess of Loss</u>	\$1,000,000 in excess of \$1,000,000 ultimate net loss each loss occurrence.
<u>Equipment Breakdown Quota Share</u>	100% up to \$5,000,000 any one accident, any one policy.

The Company also maintains facultative coverages. 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”) SSAP No. 62R. Representations were supported by appropriate risk transfer analyses and an attestation from the Company's President and Treasurer 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, 2019, the Company was not a member of a holding company system.

E. Significant Ratios

The Company’s operating ratios, computed as of December 31, 2019, 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	36%
Two-year overall operating	81%

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	\$11,606,039	53.30%
Other underwriting expenses incurred	8,767,565	40.26%
Net underwriting gain (loss)	<u>1,402,688</u>	<u>6.44%</u>
Premiums earned	<u>\$21,776,292</u>	<u>100.00%</u>

The Company's reported risk-based capital ("RBC") score was 1,572.6% at December 31, 2019. 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, 2019, as reported by the Company:

Assets

	<u>Assets</u>	<u>Nonadmitted</u> <u>Assets</u>	<u>Net Admitted</u> <u>Assets</u>
Bonds	\$11,036,032	\$ 0	\$11,036,032
Common stocks (stocks)	4,676,178		4,676,178
Properties occupied by the company	306,336		306,336
Cash, cash equivalents and short-term investments	2,243,788		2,243,788
Aggregate write-ins for invested assets	(1)		(1)
Investment income due and accrued	73,028		73,028
Uncollected premiums and agents' balances in the course of collection	296,537		296,537
Deferred premiums, agents' balances and Installments booked but deferred and not yet due	1,368,571		1,368,571
Amounts recoverable from reinsurers	11,816		11,816
Funds held by or deposited with reinsured companies	127,341		127,341
Current federal and foreign income tax recoverable and interest thereon	3,511		3,511
Net deferred tax asset	90,059	26,022	64,037
Electronic data processing equipment and software	586		586
Net equity in NY FAIR Plan	25,801		25,801
All other accounts receivable	74,448	1,178	73,270
Company owned life insurance (COLI) - CSV	1,409,513		1,409,513
Cumulative rounding	<u>(2)</u>	<u>0</u>	<u>(2)</u>
Total assets	<u>\$21,743,542</u>	<u>\$27,200</u>	<u>\$21,716,342</u>

Liabilities, Surplus and Other FundsLiabilities

Losses and loss adjustment expenses	\$3,177,209
Commissions payable, contingent commissions and other similar charges	210,131
Other expenses (excluding taxes, licenses and fees)	778,652
Unearned premiums	3,361,197
Advance premium	65,155
Ceded reinsurance premiums payable (net of ceding commissions)	237,955
Amounts withheld or retained by company for account of others	(1,175)
Aggregate rounding of individual items	<u>1</u>
 Total liabilities	 <u>\$7,829,125</u>

Surplus and Other Funds

Section 6604(3) Contingent Surplus: Fully Recognized	\$ 700,000
Unassigned funds (surplus)	<u>13,187,218</u>
 Surplus as regards policyholders	 <u>13,887,218</u>
 Total liabilities, surplus and other funds	 <u>\$21,716,343</u>

Note: The Internal Revenue Service has not audited tax returns covering tax years 2015 through 2019. 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 \$3,420,067, as detailed below:

Underwriting Income

Premiums earned		\$21,776,292
Deductions:		
Losses and loss adjustment expenses incurred	\$11,606,039	
Other underwriting expenses incurred	8,767,564	
Aggregate write-ins for underwriting deductions	<u>1</u>	
Total underwriting deductions		<u>20,373,604</u>
Net underwriting gain or (loss)		\$1,402,688

Investment Income

Net investment income earned	\$1,177,661	
Net realized capital gain	<u>1,422,587</u>	
Net investment gain or (loss)		2,600,248

Other Income

Net gain or (loss) from agents' or premium balances charged off	\$(23,515)	
Finance and service charges not included in premiums	145,190	
Aggregate write-ins for miscellaneous income	<u>8</u>	
Total other income		<u>121,683</u>
Net income before dividends to policyholders and before federal and foreign income taxes		\$4,124,619
Federal and foreign income taxes incurred		<u>704,552</u>
Net income		<u>\$3,420,067</u>

C. Capital and Surplus

Surplus as regards policyholders increased \$3,784,295 during the five-year examination period January 1, 2015 through December 31, 2019, as reported by the Company, detailed as follows:

Surplus as regards policyholders as reported by the Company as of December 31, 2014			\$10,102,923
	<u>Gains in Surplus</u>	<u>Losses in Surplus</u>	
Net income	\$3,420,067		
Net unrealized capital gains or (losses)	75,305		
Change in net deferred income tax	161,117		
Change in non-admitted assets	59,311		
Change in non-admitted – FAIR Plan		\$ 6,352	
Non-taxable income (expense): Company Owned Life Insurance	97,167		
Surplus adjustment for FAIR Plan assessment paid		14,592	
One-time surplus adjustment for change in investment accounting methods	<u>0</u>	<u>7,728</u>	
Total gains and losses	<u>\$3,812,967</u>	<u>\$28,672</u>	
Net increase (decrease) in surplus			<u>3,784,295</u>
Surplus as regards policyholders as reported by the Company as of December 31, 2019			<u>\$13,887,218</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 \$3,177,209 is the same as reported by the Company as of December 31, 2019. 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 Company's reserves are concentrated in the commercial multiple peril line of business.

5. **SUBSEQUENT EVENTS**

On March 11, 2020, the World Health Organization declared an outbreak of a novel coronavirus ("COVID-19") pandemic. The COVID-19 pandemic has continued to develop throughout 2020, with significant uncertainty remaining regarding the full effect of COVID-19 on the U.S. and global insurance and reinsurance industry. At the time of releasing this report, the examination's review noted that there has not been a significant impact to the Company. The Department has been in communication with the Company regarding the impact of COVID-19 on its business operations and financial position. The Department continues to closely monitor the impact of the pandemic on the Company and will take necessary action if a solvency concern arises.

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>
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A.	<u>Accounts and Records</u>	
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<p>It was recommended that in the future the Company exercise greater care when completing its annual and quarterly statements filed with this Department.</p>	8
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The Company has complied with this recommendation.

7. SUMMARY OF COMMENTS AND RECOMMENDATIONS

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

Respectfully submitted,

_____/S/_____
Leon W. Tambue
Senior Insurance Examiner

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

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

_____/S/_____
Leon W. Tambue

Subscribed and sworn to before me

this _____ day of _____, 2021.

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:

Leon Tambue

as a proper person to examine the affairs of the

United Frontier 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 13th day of May, 2020

*LINDA A. LACEWELL
Superintendent of Financial Services*

By:

Joan L. Riddell

*Joan Riddell
Deputy Bureau Chief*

