

REPORT ON EXAMINATION

OF

UTICA MUTUAL INSURANCE COMPANY

AS OF

DECEMBER 31, 2019

DATE OF REPORT

JUNE 8, 2021

EXAMINER

WAYNE LONGMORE

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## Department of Financial Services

**ANDREW M. CUOMO**  
Governor

**LINDA A. LACEWELL**  
Superintendent

June 8, 2021

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 32056 dated March 27, 2020, attached hereto, I have made an examination into the condition and affairs of Utica Mutual Insurance Company as of December 31, 2019, and submit the following report thereon.

Wherever the designations “UMIC” or “the Company” appears herein without qualification, it should be understood to indicate Utica 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 the Company, a multi-state insurer. 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 when deemed appropriate by the examiner.

New York was the lead state of the Utica National Insurance Group (“Group”). The examination was performed concurrently with the examinations of the following insurers:

<u>Company</u>	<u>State of Domicile</u>
Founders Insurance Company	Illinois
Founders Insurance Company of Michigan	Michigan
Graphic Arts Mutual Insurance Company	New York
Republic–Franklin Insurance Company	Ohio
Utica Lloyds of Texas	Texas
Utica National Assurance Company	New York
Utica National Insurance Company of Ohio	Ohio
Utica National Insurance Company of Texas	Texas
Utica Specialty Risk Insurance Company	Texas

Other states participating in this examination were Illinois, Michigan, Ohio and Texas.

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
- Affiliated group 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 regarding 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

Utica Mutual Insurance Company was incorporated under the laws of the State of New York on February 13, 1914, as the Utica Mutual Compensation Insurance Corporation. It became licensed on June 1, 1914 and commenced business on July 1, 1914. The Utica Mutual Insurance Company name was adopted on February 1, 1919.

In 1967, the Company entered into an agreement with Graphic Arts Mutual Insurance Company (“GAMIC”) providing for common management of the two companies. Since 1969, UMIC has pooled premiums, losses, and expenses with GAMIC through a reinsurance pooling agreement.

In 1983, UMIC purchased Republic-Franklin Insurance Company (“RFIC”), a stock property and casualty company organized under provisions of the State of Ohio Insurance Law. UMIC subsequently sold 6% of its interest in RFIC to GAMIC, creating 94% and 6% ownership. In 1984, RFIC was admitted to the pooling agreement between UMIC and GAMIC.

In 1995, UMIC acquired all the outstanding capital stock of Utica National Insurance Company of Texas (“UNIT”), which was then admitted to the above-mentioned pooling agreement.

In 1995, UMIC acquired all the common stock of Graphic Arts Insurance Company, a New York insurer. Graphic Arts Insurance Company changed its corporate title to Utica National Assurance Company and was admitted to the pooling agreement in 1997.

In 2010, UMIC acquired 100% of Nationwide Holdings, Inc., which is the owner of Founders Insurance Company (“FIC”), an Illinois domestic insurer. FIC in turn owns 100% of Founders Insurance Company of Michigan (“FICOM”), a Michigan domiciled insurer. FIC was admitted to the pooling

agreement in 2014. Nationwide Holdings, Inc. was dissolved, effective September 29, 2015, leaving UMIC as 100% owner of FIC.

A. Corporate Governance

Pursuant to the Company's charter, management of the Company is vested in a board of directors consisting of not less than seven nor more than 31 persons. The board meets at least 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>
Russell A. Acevedo, MD Fayetteville, NY	Medical Director of Intensive Care, Crouse Hospital
Clarence W. Bachman The Villages, FL	Retired
Donald P. Cardarelli Skaneateles, NY	Professor, Syracuse University
Richard P. Creedon Vernon, NY	Chief Executive Officer, Utica Mutual Insurance Company
Paul A. Hagstrom, Ph.D. Clinton, NY	Professor, Hamilton College
Gregory M. Harden McConnellsville, NY	Retired
Zelda J. Holcomb, Ph.D. Columbia, MD	Retired
Kristen H. Martin Clinton, NY	President and Chief Operating Officer, Utica Mutual Insurance Company
Nicholas O. Matt New Hartford, NY	Chairman and Chief Executive Officer, Matt Brewing Company
Peter J. O'Neill Fayetteville, NY	Retired
Timothy R. Reed Utica, NY	Consultant - self-employed

Linda E. Romano, Esq.  
New Hartford, NY

Attorney at Law,  
Bond, Schoeneck & King

Eric K. Scholl  
Anna Maria, FL

Investor/Consultant - self-employed

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

<u>Name</u>	<u>Title</u>
Richard P. Creedon	Chairman and Chief Executive Officer
Kristen H. Martin	President and Chief Operating Officer
Brian W. Miller, Jr.	Vice President, Chief Financial Officer and Treasurer
Louisa S. Ruffine	Secretary

B. Territory and Plan of Operation

As of December 31, 2019, the Company was licensed to write business in all 50 states, the District of Columbia, and Puerto Rico.

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>
3	Accident and health
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
15	Workers' compensation and employers' liability
16	Fidelity and surety
17	Credit
19	Motor vehicle and aircraft physical damage
20	Marine and inland marine

21	Marine protection and indemnity
24	Credit unemployment
26	Gap
27	Prize indemnification
28	Service contract reimbursement
29	Legal services insurance

The Company is also licensed to conduct the business of special risk insurance pursuant to Article 63 of the New York Insurance Law.

Based upon the lines of business for which the Company is licensed, and pursuant to the requirements of Articles 13, 41 and 63 of the New York Insurance Law, the Company is required to maintain a minimum surplus to policyholders in the amount of \$6,900,000. However, pursuant to Section 6302(c)(1) of the New York Insurance Law, to be licensed to write special risks, the Company is required to maintain surplus as regards policyholders of at least 250% of its authorized control level risk-based capital; therefore, the Company was required to maintain a minimum surplus to policyholders in the amount of \$335,542,055, as of December 31, 2019.

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	\$199,047,351	\$641,228,865	\$ 840,276,216
2016	\$196,587,769	\$709,275,903	\$ 905,863,672
2017	\$204,444,451	\$785,202,413	\$ 989,646,864
2018	\$227,317,313	\$831,811,370	\$1,059,128,683
2019	\$256,858,035	\$896,884,049	\$1,153,742,084

The following lines of business represent the largest lines written by the Company (by percentage of total 2019 direct written premiums): commercial multiple peril, workers' compensation, commercial auto liability, other liability – claims-made and auto physical damage, which accounted for 22.08%, 20.32%, 13.63%, 11.41% and 9.66%, respectively. Other liability – claims-made includes personal and commercial umbrella. The Company produced a majority of its 2019 direct written premiums (67.38%) in the following states: New York (20.96%), Connecticut (15.44%), Pennsylvania (12.89%), New Jersey (10.46%) and Massachusetts (7.64%).

As of December 31, 2019, the Company utilizes independent agents to produce and distribute most of its business. Brokers produced less than 10% of total business.

Due to the pooling agreement (described in section 2C of this report), the net exposure of the Company is significantly different than its direct and assumed exposure. At December 31, 2019, assumed premiums written represents intercompany pooling agreement participation as well as mandatory and voluntary participation in various pools. The Company utilizes reinsurance accounting as defined in the NAIC Accounting Practices and Procedures Manual, Statement of Statutory Accounting Principles ("SSAP") No. 62R for all its assumed reinsurance business.

C. Reinsurance Ceded

UMIC is the lead company in an inter-company reinsurance pooling agreement with five other property and casualty affiliates that cede 100% of their written premiums to UMIC. The Company retroceded 16% of the pooled premiums, net of external reinsurance, to other pool members. As of December 31, 2019, the retrocession, which resulted in sharing of premium income, losses and expenses, was as follows:

Graphic Arts Mutual Insurance Company	5%
Founders Insurance Company	5%
Republic–Franklin Insurance Company	3%
Utica National Assurance Company	2%
Utica National Insurance Company of Texas	1%

Under the present agreement, all transactions and items related to the insurance and/or general operations of the companies are pooled. The only major items that remain exempt are those related to investments and inter-company accounts.

At December 31, 2019, the business written by three other affiliates, Utica Specialty Risk Insurance Company ("USRIC"), Utica Lloyds of Texas ("ULOT") and Utica National Insurance Company of Ohio ("UNICO"), is ceded 100% to UMIC and is shared with the pool members in accordance with the above-mentioned pooling percentages.

The Group's 2019 reinsurance program included the following significant coverages:

<u>Treaty Type</u>	<u>Cession</u>
<u>Property Per Risk</u> 3 layers	\$8,000,000 in excess of \$2,000,000 with 6 reinstatements
	\$15,000,000 in excess of \$10,000,000 with 2 reinstatements
	\$25,000,000 in excess of \$25,000,000 with 2 reinstatements
<u>Property Catastrophe</u> 4 layers	\$25,000,000 in excess of \$25,000,000 with 1 reinstatement
	\$50,000,000 in excess of \$50,000,000 with 1 reinstatement
	\$200,000,000 in excess of \$100,000,000 with 1 reinstatement
	\$100,000,000 in excess of \$300,000,000 with 1 reinstatement
<u>Casualty</u> 4 layers	\$5,000,000 in excess of \$5,000,000 with 3 reinstatements
	\$10,000,000 in excess of \$10,000,000 with 1 reinstatement
	\$20,000,000 in excess of \$20,000,000 with 1 reinstatement
	\$60,000,000 in excess of \$40,000,000 with 1 reinstatement

UMIC entered into a run-off reinsurance agreement with National Indemnity Company, as reinsurer, to transfer all losses related to asbestos claims up to a contract limit of \$475,985,800 for certain policies written by UMIC and affiliates on or prior to December 31, 2003. Pursuant to this arrangement, loss and loss adjustment expense payments for direct asbestos claims, on or after January 1, 2012, are ceded to the reinsurer. In accordance with SSAP No. 62R, Paragraph 81, the accounting treatment for property and casualty run-off agreements must be approved by domiciliary regulators. On August 21, 2012, the Department issued a non-objection letter to UMIC on utilization of prospective accounting treatment regarding the agreement.

Most of the Company's ceded business was to authorized reinsurers, and the amount in cessions to authorized companies has increased since the last exam. It is the Company's policy to obtain the appropriate collateral for its cessions to unauthorized 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.

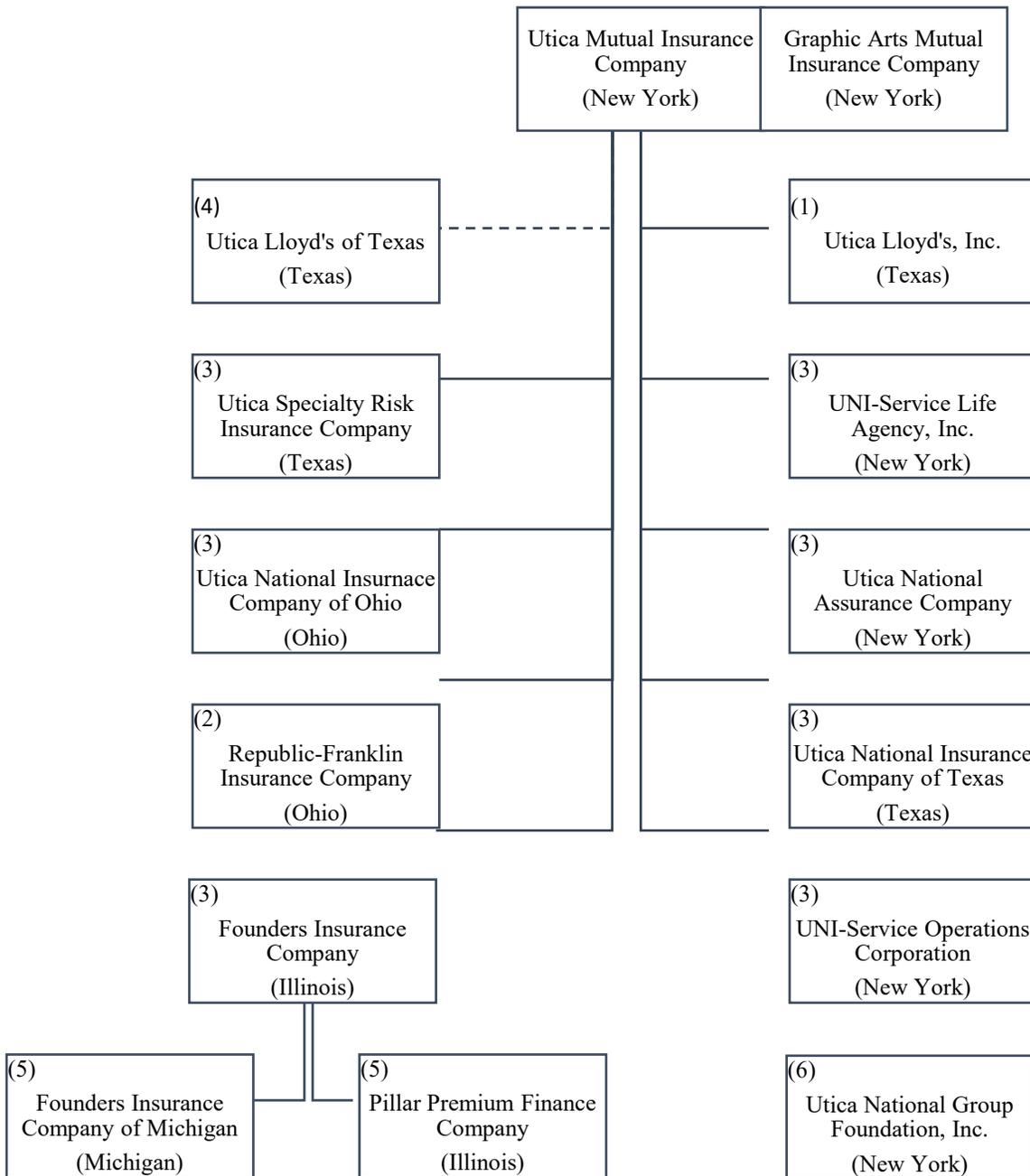
Examination review found that the Schedule F data reported by the Company in its filed annual statement accurately reflected its reinsurance transactions. Additionally, management has represented that all material ceded reinsurance agreements transfer both underwriting and timing risk as set forth in the SSAP No. 62R. Representations were supported by an attestation from the Company's Chief Executive Officer and Chief Financial Officer. 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. Affiliated Group

UMIC is the ultimate parent of the group of companies that operate under the trade name Utica National Insurance Group.

Pursuant to Section 1502(a) of the New York Insurance Law, UMIC is exempt from the filing requirements of Article 15. However, pursuant to Department Circular Letter No. 10 (2010), domestic insurers are required to file with the superintendent copies of the insurance holding company system annual registration statement ("NAIC Form B") filed in another state by the insurer or its parent authorized insurer, and any amendments thereto, at the same time that the insurer files the statement and any amendments with another state. If an insurer is not required to file the NAIC Form B in another state, then the insurer should file the information contained in NAIC Form B with the Department within 120 days following the close of the ultimate holding company's fiscal year. UMIC is noted to have made the required filings in a timely manner during the period covered by the examination.

The following is an organizational chart outlining the relationship between members of the affiliated group at December 31, 2019:



- (1) Owned 100% by Utica Mutual Insurance Company; operates as attorney-in-fact for Utica Lloyd's of Texas.
- (2) Owned 94% by Utica Mutual Insurance Company and 6% by Graphic Arts Mutual Insurance Company.
- (3) Owned 100% by Utica Mutual Insurance Company.
- (4) A Texas Lloyd's association of twelve underwriters under sponsorship of the Utica Mutual Insurance Company.
- (5) Owned 100% by Founders Insurance Company.
- (6) Shares common management with the Group.

At December 31, 2019, the Company was party to the following agreements with other affiliated entities:

UMIC and GAMIC Common Management Agreement

This agreement became effective August 1, 1967 between UMIC and GAMIC.

The agreement may be terminated by the action of the board of directors of either party, but no such termination shall be effective until at least one year after notice thereof is given to the other party.

Tax Allocation Agreement

This Tax Allocation Agreement was entered into July 1, 2010, by and between the Company and various other affiliates.

It was noted during the review of the agreement that some parties to the agreement are no longer in existence. It is recommended that the Company draft an updated tax allocation agreement, consisting of existing entities, and submit the new agreement to the Department in accordance with Circular Letter No.33 (1979).

UMIC and FICOM Service Agreement

This service agreement was entered into December 11, 2014, by and between UMIC and FICOM. UMIC, the ultimate parent company, provides certain services to FICOM, including executive management services, actuarial services, accounting services, technology services and all other activities necessary to the conduct of FICOM as FICOM may from time to time request.

In consideration for the services rendered by UMIC, FICOM shall pay UMIC a fee equal to the following incurred expenses:

- Loss adjustment expenses for adjusting, recording and paying of claims which are directly related to FICOM;
- Investment expenses for the investment of funds and pursuit of investment income that are directly related to FICOM;
- Other underwriting expenses that are directly related to FICOM.

Such fee shall be paid by FICOM within fifteen days following receipt by FICOM of a report showing the relevant expenses.

This agreement shall continue in force and effect until terminated by any party upon mutual agreement or upon 60 days' prior written notice to the other.

#### UMIC and USRIC Service Agreement

This service agreement is between UMIC and USRIC. This agreement became effective on April 1, 2012.

UMIC agrees to render certain services for and on behalf of USRIC including underwriting advice and services, policy issuing and billing services, premium collection, auditing and record keeping, office accommodations, claim adjustment and payment services and all other activities necessary to the conduct of USRIC as USRIC may from time to time request.

UMIC is responsible for all operating expenses of USRIC other than the following expenses and costs that are to be retained by USRIC:

- Commissions allowed to producers;
- Taxes;
- Board and bureau assessments;
- Insurance Department licenses and fees;
- Legal expenses other than those incurred in connection with loss adjustments;
- Investment expenses, if any;
- All losses and loss adjustment expenses.

In consideration of the services rendered by UMIC, USRIC pays UMIC, in accordance with the provisions of Regulation No. 30 (11 NYCRR 105-109). This agreement shall continue to be in force until terminated by either party's giving at least thirty (30) days' written notice to the other party.

#### UMIC and ULOT Service Agreement

This agreement is by and between UMIC and ULOT. This contract became effective on September 1, 1999.

UMIC agrees to render certain services for and on behalf of ULOT, under the supervision and control of an Attorney-in-Fact, including underwriting advice and services, policy issuing and billing services, premium collection, auditing and record keeping, office accommodations, claim adjustment and payment services and all other activities necessary to the conduct ULOT, as ULOT may from time to time request.

UMIC is responsible for all operating expenses of ULOT other than the following expenses and costs, which are to be retained by ULOT:

- Commissions allowed to producers;
- Taxes;
- Board and bureau assessments;
- Insurance Department licenses and fees;
- Legal expenses, other than those incurred in connection with loss adjustments;
- Investment expenses, if any;
- All losses and loss adjustment expenses.

This agreement shall continue to be in force until cancelled by either party's giving thirty (30) days written notice to the other party.

#### UMIC and UNIT Service Agreement

This service agreement between UMIC and UNIT became effective on October 1, 2014. UMIC agrees to render certain services for and on behalf of UNIT that include underwriting advice and services, policy issuing and billing services, auditing and record keeping, premium collection, office accommodations, claim adjustment and payment services, and all other activities necessary to the conduct of UNIT, as UNIT may from time to time request.

Except as otherwise provided, each party to this agreement shall have the right to terminate this agreement for any reason by giving the other party written notice received sixty (60) days prior to the effective date thereof. In addition, UNIT shall have the right to terminate this agreement immediately for cause.

#### UMIC and UNI-Service Operations Service Agreement

This service agreement is made and entered into between UMIC and UNI-Service Operations Corporation ("Operations"). This agreement was executed March 13, 2001 and became effective January 1, 2001.

UMIC shall provide to Operations such services as may be needed by Operations in the course of its business operations. UMIC shall charge Operations for such services on terms that are fair, equitable, reasonable, and in conformity with customary insurance accounting practices consistently applied. Each party shall have the right, at its own expense and at any reasonable time, to audit the records of the other party.

The agreement shall continue in effect until cancelled by either party giving at least thirty (30) days' notice in writing to the other party.

UMIC and UNICO Amended and Restated Service Agreement

This amended and restated service agreement between UMIC and UNICO was entered into on September 7, 2011 and amend the original agreement that was effective December 22, 2010.

UMIC agrees to render certain services for and on behalf of UNICO that include underwriting advice and services, policy issuing and billing services, auditing and record keeping, premium collection, office accommodations, claim adjustment and payment services and all other activities necessary to the conduct of UNICO, as UNICO may from time to time request.

UMIC is responsible for all operating expenses of UNICO, other than the following expenses and costs that are to be retained by UNICO:

- Commissions allowed to producers;
- Taxes;
- Board and bureau assessments;
- Insurance Department licenses and fees;
- Legal expenses other than those incurred in connection with loss adjustments;
- Investment expenses, if any;
- All losses and loss adjustment expenses.

This agreement shall continue in force until terminated by either party's giving at least thirty (30) days' written notice to the other party.

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	89%
Adjusted liabilities to liquid assets	81%
Two-year overall operating	90%

### 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	\$2,502,195,285	63.87%
Other underwriting expenses incurred	1,364,807,984	34.84
Net underwriting gain	<u>50,650,127</u>	<u>1.29</u>
Premiums earned	<u>\$3,917,653,396</u>	<u>100.00%</u>

The Company's reported risk-based capital ("RBC") score was 762.9% as of 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.

#### F. Accounts and Records

##### i. Compliance with Department Regulation 118

A review of the 2019 CPA engagement letter shows that the following language, required by Department Regulation 118, were not included.

Department Regulation 118, Section 89.4(b) states:

"The company shall obtain a letter from the CPA, and file a copy with the superintendent, stating that the CPA is aware of the provisions of the insurance law and the regulations thereunder of the state of domicile that relate to accounting and financial matters and affirming that the CPA will express his or her opinion on the financial statements in terms of their conformity to the statutory accounting practices prescribed or otherwise permitted by that insurance department, specifying such exceptions as the CPA may believe appropriate."

Department Regulation 118, Section 89.8(a) states, in part:

"Every company required to furnish an annual audited financial report shall require the CPA to submit written notification to the superintendent, the board of directors and the company's audit committee within five business days of any determination by the CPA that the company has materially misstated its financial condition as reported to the superintendent as of the

balance sheet date currently under audit or that the company does not meet the minimum capital or surplus requirement of the insurance law as of that date...”

Department Regulation 118, Section 89.11 states:

“Every company shall require the CPA to make available for review by Department examiners, all work papers prepared in the conduct of the CPA's audit and any communications related to the audit between the CPA and the company, at the offices of the company, at the Department, or at any other reasonable place designated by the superintendent. Every company shall require that the CPA retain the audit work papers and communications for six calendar years from the date of the audit report or until the filing of the report on examination covering the period of the audit, whichever is longer, as required by Part 243 of this Title (Regulation 152).”

It is recommended that the Company establish procedures to ensure that its engagement letter with its independent certified public accountant include all language required by Department Regulation 118, Sections 89.4(b), 89.8(a), and 89.11.

ii. Compliance with Expense Limitation for Mutual Companies

Section 4110(a) of the New York Insurance Law states, in part:

“No domestic mutual property/casualty insurance company licensed to write a kind of insurance specified in paragraph seven, eight, nine, ten, eleven, thirteen, fourteen, fifteen, sixteen or seventeen of subsection (a) of section one thousand one hundred thirteen of this chapter shall expend in any one calendar year for management expenses a greater amount than thirty percent of the sum of its net premium income and seventy-five percent of its investment income for such year...”

Examination review revealed that the Company exceeded the management expense limits in all five years covered by this examination. It is recommended that the Company establish procedures to ensure compliance with Section 4110(a) of the New York Insurance Law. It is noted that a similar recommendation was included in the previous two filed reports on examination.

### 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>Assets Not Admitted</u>	<u>Net Admitted Assets</u>
Bonds	\$1,801,851,462	\$ 0	\$1,801,851,462
Common stocks (stocks)	590,754,896	150,163	590,604,733
First liens - mortgage loans on real Estate	3,720,958	0	3,720,958
Properties occupied by the company	13,693,555	0	13,693,555
Cash, cash equivalents and short-term investments	15,102,132	0	15,102,132
Other invested assets	18,230,098	0	18,230,098
Securities lending reinvested collateral assets	8,935,990	0	8,935,990
Investment income due and accrued	14,292,540	0	14,292,540
Uncollected premiums and agents' balances in the course of collection	316,458,341	7,426,970	309,031,371
Deferred premiums, agents' balances and installments booked but deferred and not yet due	19,872,914	188,274	19,684,640
Amounts recoverable from reinsurers	7,191,124	0	7,191,124
Current federal and foreign income tax recoverable and interest thereon	9,187,868	0	9,187,868
Net deferred tax asset	37,435,461		37,435,461
Guaranty funds receivable or on deposit	385,606	0	385,606
Electronic data processing equipment and software	910,616	0	910,616
Furniture and equipment, including health care delivery assets	178,871	178,871	0
Equities and Deposits in Pools and Associations	5,645,089	80,554	5,564,535
Accounts Receivable - Other	4,187,494	2,199,068	1,988,426
Prepaid Expenses	20,421,606	20,190,176	231,430
Clearing Accounts	3,104,314	2,744,313	360,001
Miscellaneous Office Equipment	26,411,166	26,411,166	0
Deposits	<u>5,400</u>	<u>5,400</u>	<u>0</u>
Total assets	<u>\$2,917,977,501</u>	<u>\$ 59,574,955</u>	<u>\$2,858,402,546</u>

Liabilities, Surplus and Other FundsLiabilities

Losses and loss adjustment expenses	\$1,181,919,961
Commissions payable, contingent commissions and other similar charges	30,127,937
Other expenses (excluding taxes, licenses and fees)	36,339,787
Taxes, licenses and fees (excluding federal and foreign income taxes)	7,840,877
Current federal and foreign income taxes	5,101,768
Unearned premiums	470,643,338
Advance premium	3,953,408
Policyholders (dividends declared and unpaid)	6,909,992
Ceded reinsurance premiums payable (net of ceding commissions)	6,456,092
Funds held by company under reinsurance treaties	5,202,428
Amounts withheld or retained by company for account of others	8,690,028
Provision for reinsurance	3,862,039
Payable to parent, subsidiaries and affiliates	10,640,250
Payable for securities	5,528,296
Payable for securities lending	8,935,990
Contingent balance in safety groups	333,479
Miscellaneous accounts payable	348,198
Reserve for corporate loss	100,000
Payable for securities	1,000
Liability for pension benefits	<u>(6,524,283)</u>
Total liabilities	\$1,786,410,585

Surplus and Other Funds

General voluntary surplus	\$ 1,500,000
Reserve for undeclared dividends	7,004,082
Special contingent surplus	1,700,000
Unassigned funds (surplus)	<u>1,061,787,879</u>
Surplus as regards policyholders	<u>1,071,991,961</u>
Total liabilities, surplus and other funds	<u>\$2,858,402,546</u>

Note: The Internal Revenue Service did not audit any of 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 \$276,986,163, as detailed below:

Underwriting Income

Premiums earned		\$3,917,653,396
Deductions:		
Losses and loss adjustment expenses incurred	\$2,502,195,285	
Other underwriting expenses incurred	1,361,638,590	
Limited Assignment Distribution program expenses	<u>3,169,394</u>	
Total underwriting deductions		<u>3,867,003,269</u>
Net underwriting gain or (loss)		\$ 50,650,127

Investment Income

Net investment income earned	\$ 297,753,397	
Net realized capital gain	<u>31,691,194</u>	
Net investment gain or (loss)		329,444,591

Other Income

Net gain (loss) from agents' or premium balances charged off	\$ (12,087,684)	
Finance and service charges not included in premiums	40,738,813	
Miscellaneous income	(22,360,409)	
Gain (loss) on sale of assets	(116,302)	
Foreign exchange	(10,308)	
Corporate loss	<u>(66,634)</u>	
Total other income		<u>6,097,476</u>
Net income before dividends to policyholders and before federal and foreign income taxes		\$ 386,192,194
Dividends to policyholders		<u>45,492,589</u>
Net income after dividends to policyholders but before federal and foreign income taxes		\$ 340,699,605
Federal and foreign income taxes incurred		<u>63,713,442</u>
Net income		<u>\$ 276,986,163</u>

C. Capital and Surplus

Surplus as regards policyholders increased \$266,117,253 during the 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			\$ 805,874,708
	<u>Gains in</u>	<u>Losses in</u>	
	<u>Surplus</u>	<u>Surplus</u>	
Net income	\$276,986,163		
Net transfers (to) from protected cell accounts			
Net unrealized capital gains or (losses)	65,737,467		
Change in net unrealized foreign exchange capital gain (loss)	5,171		
Change in net deferred income tax		\$20,393,020	
Change in nonadmitted assets		30,508,627	
Change in provision for reinsurance	538,517		
Contingent balance in safety groups	487,199		
Pension expense		18,432,307	
Pension benefit obligation		8,358,959	
Miscellaneous surplus adjustments	<u>55,649</u>	<u>0</u>	
Total gains and losses	\$343,810,166	\$77,692,913	
Net increase (decrease) in surplus			<u>266,117,253</u>
Surplus as regards policyholders as reported by the Company as of December 31, 2019			<u>\$1,071,991,961</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 \$1,181,919,961 is the same as that 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 reported reserves are concentrated in the commercial lines, which is consistent with the business written by the Company.

#### **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 the Company’s operations and financial position and will take necessary action if a solvency concern arises.

## 6. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

The prior report on examination contained the following recommendations (page number refers to the prior report):

<u>ITEM</u>	<u>PAGE NO.</u>
A. <u>Corporate Governance</u>	
It was recommended that the Company comply fully with Article VI of its Charter as well as Section 1209(b) of the New York Insurance Law by reducing to no more than four, the number of directors who are neither members of the Company nor officers of member corporations. It should be noted that a similar recommendation was included in the previous report on examination.	5
The Company has complied with this recommendation.	
B. <u>Reinsurance</u>	
i. It was recommended that in the future the Company accurately prepare Schedule F, in accordance with the NAIC's annual statement instructions.	8
The Company has complied with this recommendation.	
ii. It was recommended that the Company only take statutory credit for reinsurance cessions to authorized insurers or accredited reinsurers, unless it receives collateral in accordance with Department Regulation 20.	9
The Company has complied with this recommendation.	
iii. It was recommended that the Company include specific language from Department Circular Letter No. 5 (1988) in all reinsurance contracts which make reference to a novation.	11
The Company has complied with this recommendation.	

- iv. It was recommended that the offset provision of certain reinsurance agreements be amended to state that in the event of the insolvency of either party to the agreement then offsets shall only be allowed to the extent permitted by the provision of Section 7427 of the New York Insurance Law. 12

The Company has complied with this recommendation.

- v. It was further recommended that all future reinsurance agreements with an offset provision entered into by the Company include such required language. 12

The Company has complied with this recommendation.

C. Accounts and Records

- i. It was recommended that the Company ensure that future engagement letters with its independent certified public accountant include the five-day notice requirement called for in Section 89.8(a) of Department Regulation No. 118. 19

The Company has not complied with this recommendation. A similar comment is made in this report.

- ii. It was again recommended that the Company comply with the management expense limitations set forth in Section 4110(a) of the New York Insurance Law. It should be noted that a similar recommendation was included in the previous report on examination. 20

The Company has not complied with this recommendation. A similar comment is made in this report.

## 7. SUMMARY OF COMMENTS AND RECOMMENDATIONS

<u>ITEM</u>		<u>PAGE NO.</u>
A.	<u>Holding Company</u>	
	It is recommended that the Company draft an updated tax allocation agreement, consisting of existing entities, and submit the new agreement to the Department in accordance with Circular Letter No.33 (1979).	11
B.	<u>Accounts and Records</u>	
i.	It is recommended that the Company establish procedures to ensure that its engagement letters with its appointed CPA firm include all language required by Regulation 118, Sections 89.4 (b), 89.8 (a), and 89.11.	16
ii.	It is recommended that the Company establish procedures to ensure compliance with Section 4110(a) of the New York Insurance Law.	16

Respectfully submitted,

\_\_\_\_\_/S/  
Wayne Longmore  
Associate Insurance Examiner

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

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

\_\_\_\_\_/S/  
Wayne Longmore

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:

**Wayne Longmore**

as a proper person to examine the affairs of the

**Utica 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 27th day of March, 2020

LINDA A. LACEWELL  
Superintendent of Financial Services

By: *Joan L. Riddell*

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Joan Riddell  
Deputy Bureau Chief

