REPORT ON EXAMINATION

OF THE

PITTSTOWN CO-OPERATIVE FIRE INSURANCE COMPANY

AS OF

DECEMBER 31, 2010

DATE OF REPORT	DECEMBER 16, 2011
EXAMINER	SHEIK H. MOHAMED

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Andrew M. Cuomo
Governor

Benjamin M. Lawsky
Superintendent

October 28, 2011

Honorable Benjamin M. Lawsky
Superintendent of Financial Services
Albany, New York 12257

Sir:

Pursuant to the requirements of the New York Insurance Law, and in compliance with the instructions contained in Appointment Number 30761 dated October 5, 2011, attached hereto, I have made an examination into the condition and affairs of Pittstown Co-operative Fire Insurance Company as of December 31, 2010, and submit the following report thereon.

Wherever the designation “the Company” appears herein without qualification, it should be understood to indicate Pittstown Co-operative Fire 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 1483 State Highway 7, Troy, NY 12180.

1. SCOPE OF EXAMINATION

The prior examination was conducted as of December 31, 2005. This examination covered the five- year period from January 1, 2006 through December 31, 2010, and was limited in its scope to a review or audit of only those balance sheet items considered by this Department to require analysis, verification or description, including: invested assets, loss and loss adjustment expense reserves and the provision for reinsurance. The examination included a review of income, disbursements and company records deemed necessary to accomplish such analysis or verification.

A review was made to ascertain what action was taken by the Company with regard to comments and recommendations contained in the prior report on examination.

2. DESCRIPTION OF COMPANY

The Company was organized in 1857. In 1910, this Department issued a certificate authorizing the Company to continue transacting business as an assessment cooperative fire insurance company in the town of Pittstown.

Subsequently, the Company's license was amended, extending its territory to all of Rensselaer County in March of 1954 and to Washington County in May of 1983.

A. Management

Pursuant to the Company's charter and by-laws, as amended in 2009, management of the Company is vested in a board of directors consisting of not less than nine nor more than thirteen members. The board meets four times during each calendar year. At December 31, 2010, the board of directors was comprised of the following nine members:

Name and Residence	Principal Business Affiliation
Allen Cornell (E) Hoosick Falls, NY	Farmer Vice President, Pittstown Co-operative Fire Insurance Company
Linda Mason Valley Falls, NY	Account Clerk
Beverly Moore Valley Falls, NY	Retired Teacher

Name and Residence	Principal Business Affiliation
Dorothy Requate Valley Falls, NY	Retired
David Schmidt (E) Melrose, NY	Farmer Vice President, Pittstown Co-operative Fire Insurance Company
George Skott Buskirk, NY	Retired Farmer
David Tarbox Troy, NY	Farmer
Jayne Tarbox (E) Troy, NY	Receiver of Taxes, Town of Brunswick Secretary/Treasurer, Pittstown Co-operative Fire Insurance Company
Timothy Wiley (E) Johnsonville, NY	Lumber Salesman

(E) Denotes member of the executive committee.

A review of the minutes of the board of directors' meetings held during the examination period indicated that the meetings were generally well attended with the exception of George Skott who attended less than 50% of the meetings for which they were eligible to attend.

Members of the board have a fiduciary responsibility and must evince an ongoing interest in the affairs of the insurer. It is essential that board members attend meetings consistently and set forth their views on relevant matters so that the board may reach appropriate decisions. Individuals who fail to attend at least one-half of the regular meetings do not fulfill such criteria. It is recommended that board members who are unable or unwilling to attend meetings consistently should resign or be replaced.

Conflict of interest statements signed by officers and directors of the Company were not available for review for the years under examination. It is recommended the Company maintain conflict of interest statements at its home office for each year subject to examination.

As of December 31, 2010, the principal officers of the Company were as follows:

Name	Title
David Schmidt	President
Jayne Tarbox	Secretary/Treasurer
Allen Cornell	Vice President

B. Territory and Plan of Operation

As of December 31, 2010, the Company was licensed to write business within the counties of Washington and Rensselaer of this state.

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:

Paragraph	Line of Business
4	Fire
5	Miscellaneous property

Based on the lines of business for which the Company is licensed and pursuant to the requirements of Articles 13 and 66 of the New York Insurance Law, the Company is required to maintain a minimum surplus to policyholders in the amount of $100,000.

The Company issues policies for a term of three years, with applications being received and inspections made by the Company’s agent. The directors adjust losses. Assessments are collected at the home office of the Company.

The following schedule shows the direct premiums written by the Company both in total and in New York for the period under examination:

Calendar Year	Direct Premium Written
2006	$ 8,609
2007	$ 8,294
2008	$ 9,166
2009	$ 8,753
2010	$11,860

C. Reinsurance

The Company did not assume reinsurance premiums written as of December 31, 2010.

The Company has structured its ceded reinsurance program as follows:

Type of Treaty	Cession
Combination Property Excess of Loss	$78,400 in excess of $5,600 each loss, each risk; for windstorm, tornado, cyclone, flood, earthquake, or volcanic eruption. $70,000 in excess of $14,000 each loss, each risk; as respects losses other than those described above. The liability of the reinsurers shall not exceed $210,000 each occurrence.
Windstorm Catastrophe Excess of Loss	100% of the amount by which net retained losses exceeds 10% of the Company's policyholders' surplus per occurrence (loss occurrence must involve 3 or more risks).

Since the previous examination, the Company's retention was reduced from $14,000 to $5,600 for windstorm, tornado, cyclone, flood, earthquake or volcanic eruption.

The examiner reviewed all ceded reinsurance contracts in effect at December 31, 2010. All of the aforementioned reinsurance agreements were found to contain the required clauses, including an insolvency clause meeting the requirements of Section 1308 of the New York Insurance Law.

All ceded reinsurance agreements were accounted for utilizing reinsurance accounting as set forth in paragraphs 26 and 27 of the National Association of Insurance Commissioners ("NAIC") Accounting Practices and Procedures Manual, Statements of Statutory Accounting Principles ("SSAP") No. 62.

Examination review of the Schedule F data reported by the Company in its filed annual statement was found to accurately reflect its reinsurance transactions. Additionally, management has represented that all material ceded reinsurance agreements transfer both underwriting and timing risk as set forth in SSAP No. 62. Representations were supported by appropriate risk transfer analyses and an attestation from the Company's Chief Executive Officer pursuant to the NAIC Annual

Statement Instructions. Additionally, examination review indicated that the Company was not a party to any finite reinsurance agreements.

D. Holding Company System

The Company is not a member of any holding company system at December 31, 2010.

E. Significant Operating Ratios

The following ratios have been computed as of December 31, 2010, based upon the results of this examination:

Net premiums written in 2010 to surplus as regards policyholders	0.02 to 1
Liabilities to cash and invested assets	0.26%
Investment yield	3.695%

All of the above ratios fall within the benchmark ranges set forth in the Insurance Regulatory Information System of the National Association of Insurance Commissioners.

The underwriting ratios presented below are on an earned-incurred basis and encompass the five-year period, January 1, 2006 to December 31, 2010:

	Amounts	Ratio
Loss and loss adjustment expense	$ 26,886	331.64%
Other underwriting expense	64,013	789.60
Net underwriting gain/ (loss)	(82,792)	(1021.24)
Premiums earned	$ 8,107	100.00%

F. Accounts and Records

During the examination period, five claims were reported to the Company. Pursuant to Part 216.4(a) of Department Regulation 64, every insurer, upon notification of a claim, shall, within 15 business days, acknowledge the receipt of such notice. Upon review of the reported claims, it was noted that the Company did not send an acknowledgment of receipt of the claim for any of the five claims reported.

Additionally, it was noted that the claim files contained only payment information and did not include any other communications, notes or other work papers relating to the claim. Pursuant to Part 216.11 of Department Regulation 64:

> "All insurers subject to the provisions of this part must maintain within each claim file all communications, transactions, notes and work papers relating to the claim. All communications and transactions, whether written or oral, emanating from or received by the insurer shall be dated by the insurer. Claim files must be so maintained that all events relating to a claim can be reconstructed by the Insurance Department examiners."

It is recommended that the Company send an acknowledgment to the claimant within 15 business days of receipt of notice of a claim, pursuant to the provisions of Part 216.4(a) Department Regulation 64. It is further recommended that the Company include in each claim file, all communications, transactions, notes and work papers relating to the claim, pursuant to the provisions of Part 216.11 of Department Regulation 64.

3. FINANCIAL STATEMENTS

A Balance Sheet

The following shows the assets, liabilities and surplus as regards policyholders as of December 31, 2010 as determined by this examination and as reported by the Company:

	Examination			Company	Surplus
Assets	Assets	Assets Not Admitted	Net Admitted Assets	Net Admitted Assets	Increase (Decrease)
Bonds	$ 5,000	$ 0	$ 5,000	$ 5,000	$ 0
Common stocks	46,519	0	46,519	46,519	0
Cash, cash equivalents and short-term investments	143,927	0	143,927	233,000	(89,073)
Aggregate write-ins for other than invested assets - Annuity	89,073	67,357	21,716	0	21,716
Total assets	$284,519	$67,357	$217,162	$284,519	$(67,357)

Liabilities, Surplus and Other Funds	Examination	Company	Surplus Increase (Decrease)
Liabilities			
Taxes, licenses and fees (excluding federal and foreign income taxes)	$ 475	$ 475	$ 0
Amounts withheld or retained by company for account of others	38	38	$ 0
Total liabilities	$ 513	$ 513	$ 0
Surplus and Other Funds			
Required Surplus	$100,000	$100,000	
Unassigned Funds (Surplus)	116,649	184,006	$(67,357)
Surplus as regards policyholders	$216,649	$284,006	$(67,357)
Total liabilities, surplus and other funds	$217,162	$284,519	$(67,357)

NOTE: 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

Surplus as regards policyholders decreased $96,492 during the five-year examination period January 1, 2006 through December 31, 2010, detailed as follows:

Underwriting Income

Premiums earned		$ 8,107
Losses and loss adjustment expenses incurred	$26,886	
Other underwriting expenses incurred	64,013	
Total underwriting deductions		90,899
Net underwriting gain or (loss)		$(82,792)
Net investment income earned		48,139
Net loss		$(34,653)

Capital and Surplus Accounts

	Gains in Surplus	Losses in Surplus	
Surplus as regards policyholder, per prior report on examination as of December 31, 2005			$313,141
Net income	$ 0	$ 34,653	
Net unrealized gain	5,518	0	
Change in non-admitted assets	0	67,357	
Total gains and losses	$ 5,518	$102,010	
Net increase (decrease) in surplus as regards policyholders			(96,492)
Surplus as regards policyholder, per report on examination as of December 31, 2010			$216,649

4. AGGREGATE WRITE-INS FOR OTHER THAN INVESTED ASSETS - ANNUITY

At December 31, 2010, the Company reported an admitted asset under the caption "Cash" for an annuity contract with Pacific Life and Annuity Company, which names the Secretary/Treasurer of the Company as the annuitant, and the Company as the owner. The financial statements in this report reflect the reclassification of the annuity investment from "Cash" to "Aggregate write-ins for other than invested assets." Additionally, the examination admitted asset for the annuity investment is $21,716, which is $67,357 less than the $89,073 reported by the Company as of December 31, 2010.

An annuity contract qualifies as an admitted asset, up to the amount of the cash surrender value, pursuant to Paragraph 6 of SSAP 21 (Other Admitted Assets), which states:

> The amount that could be realized on life insurance policies where the reporting entity is the owner and beneficiary, or has otherwise obtained the rights to control the policy, is similar to a cash deposit that is realizable on demand. As such, the amount that could be realized on a life insurance policy as of the date to which premiums have been paid shall be reported as an admitted asset. In determining the amount that could be realized, reporting entities shall consider the cash surrender value as well as other contractual terms which limit or provide for additional realizable amounts.

Additionally, the amount of the admitted asset is further limited pursuant to the provision of Section 1409(a) of the New York Insurance Law, which states:

> Except as more specifically provided in this chapter, no domestic insurer shall have more than ten percent of its admitted assets as shown by its last statement on file with the superintendent invested in, or loaned upon, the securities (including for this purpose certificates of deposit, partnership interests and other equity interests) of any one institution.

Further, Section 1412(b) of the New York Insurance Law states:

> In determining the financial condition of any such insurer, the value of any wholly ineligible investment, and the value of any investment in excess of any limitation prescribed in this chapter, shall be deducted as a non-admitted asset of such insurer.

The admitted asset reported by the Company for the annuity represented the account value at December 31, 2010, as reported by the broker holding the annuity. The examination admitted asset represents the limitation pursuant to the provisions of Section 1409(a) of the New York Insurance

Law and has been calculated based on the surplus to policyholders as of the examination date, as follows:

	Company	Not Admitted	Examination
Investment in Annuity	89,073	67,357	21,716
Total Admitted Assets at December 31, 2010	284,519	67,357	217,162
Investment in Annuity/Total Admitted Assets	31.3%		10.0%

The reclassification of the annuity from Cash to Aggregate Write-ins for Other than Invested Assets was done pursuant to the NAIC 2010 Property/Casualty Annual Statement Instructions, which provides that the cash value of corporate owned life insurance should be reported as an admitted asset on Line 25 (Aggregate Write-ins for Other Than Invested Assets) of the Asset Page.

It is recommended that the Company refrain from investing more than 10% of its admitted assets in any one institution pursuant to the provisions of Section 1409(a) of the New York Insurance Law. It is recommended that the Company report its investment in annuities at the lesser of the cash surrender value or 10% of its admitted assets, pursuant to the provisions of SSAP 21, and Sections 1409(a) and 1412(b) of the New York Insurance Law. It is further recommended that the Company properly classify its investments in annuities pursuant to the NAIC Property/Casualty Annual Statement Instructions.

Section 1412(a) of the New York Insurance Law requires that the Company divest itself of the overinvestment. However, it is noted that pursuant to the terms of the annuity contract, the Company will be subject to penalties if it withdraws more than ten percent of the annuity amount in any one year. Therefore, it is recommended that the Company begin withdrawing the maximum amount that it can without penalty, until the outstanding balance is reduced to an amount that is in compliance with Section 1409(a) of the New York Insurance Law.

5. LOSSES AND LOSS ADJUSTMENT EXPENSES

The examination liability for the captioned items of $0 is the same as reported by the Company as of December 31, 2010. The examination analysis was based on statistical information contained in the Company's internal records and in its filed annual statements.

6. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

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

ITEM		PAGE NO.
A.	Management	
i.	It was recommended that the Company comply with its by-laws as regard the number of its directors and fill any board vacancies in a timely manner	3
	The Company has complied with this recommendation.	
ii.	It was recommended that director Hayner Bornt should either improve his attendance or be replaced by the policyholders.	4
	The Company has complied with this recommendation.	
B.	Reinsurance	
	It was recommended that the Company comply with Section 1308(e) of the New York Insurance Law, by submitting reinsurance agreements and addenda to this Department in a timely manner.	6
	The Company has complied with this recommendation.	

7. SUMMARY OF COMMENTS AND RECOMMENDATIONS

ITEM		PAGE NO.
A.	Management	
i.	It is recommended that board members who are unable or unwilling to attend meetings consistently should resign or be replaced.	3
ii.	It is recommended the Company maintain conflict of interest statements at its home office for each year subject to examination.	3
B.	Accounts and Records	
i.	It is recommended that the Company send an acknowledgment to the claimant within 15 business days of receipt of notice of a claim, pursuant to the provisions of Part 216.4(a) Department Regulation 64.	7

ITEM		PAGE NO.
ii.	It is further recommended that the Company include in each claim file, all communications, transactions, notes and work papers relating to the claim, pursuant to the provisions of Part 216.11 of Department Regulation 64.	7
C.	Aggregate Write-ins for Other Than Invested Assets - Annuity	
i.	It is recommended that the Company refrain from investing more than 10% of its admitted assets in any one institution pursuant to the provisions of Section 1409(a) of the New York Insurance Law.	11
ii.	It is recommended that the Company report its investment in annuities at the lesser of the cash surrender value or 10% of its admitted assets, pursuant to the provisions of SSAP 21, and Sections 1409(a) and 1412(b) of the New York Insurance Law.	11
iii.	It is recommended that the Company properly classify its investments in annuities pursuant to the NAIC Property/Casualty Annual Statement Instructions.	11
iv.	It is recommended that the Company begin withdrawing the maximum amount that it can without penalty, until the outstanding balance is reduced to an amount that is in compliance with Section 1409(a) of the New York Insurance Law.	11

Respectfully submitted,

/s/
Sheik H.A. Mohamed, CPCU, CPA
Senior Insurance Examiner

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

SHEIK H. A.MOHAMED, being duly sworn, deposes and says that the foregoing report, subscribed by him, is true to the best of his knowledge and belief.

/s/
Sheik H.A. Mohamed

Subscribed and sworn to before me

this__________ day of ___________________, 2012.

APPOINTMENT NO. 30761

NEW YORK STATE

DEPARTMENT OF FINANCIAL SERVICES

*I, **BENJAMIN M. LAWSKY**, Superintendent of Financial Services of the State of New York, pursuant to the provisions of the Financial Services Law and the Insurance Law, do hereby appoint:*

Sheik Mohamed

as a proper person to examine the affairs of the

PITTSTOWN CO-OPERATIVE FIRE 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 my name and affixed the official Seal of the Department at the City of New York

this 5th day of October, 2011

BENJAMIN M. LAWSKY
Superintendent of Financial Services

By:

Jean Marie Cho
Deputy Superintendent