

REPORT ON EXAMINATION

OF THE

SAUQUOIT VALLEY INSURANCE COMPANY

AS OF

DECEMBER 31, 2011

DATE OF REPORT

OCTOBER 22, 2012

EXAMINER

FRANK P. SCHIRALDI

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NEW YORK STATE  
DEPARTMENT *of*  
FINANCIAL SERVICES

Andrew M. Cuomo  
Governor

Benjamin M. Lawsky  
Superintendent

October 22, 2012

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 30857 dated May 24, 2012, attached hereto, I have made an examination into the condition and affairs of Sauquoit Valley Insurance Company as of December 31, 2011, and submit the following report thereon.

Wherever the designation “the Company” appears herein without qualification, it should be understood to indicate Sauquoit Valley 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 10170 Roberts Road, Sauquoit, NY 10368.

## 1. SCOPE OF EXAMINATION

The Department has performed an individual examination of the Company, a single-state insurer. The previous examination was conducted as of December 31, 2006. This examination covered the 5 year period from January 1, 2007 through December 31, 2011. 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 (“Handbook”), which requires that we plan and perform the examination to evaluate the financial condition and identify 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 Statutory Accounting Principles and annual statement instructions when applicable to domestic state regulations.

All financially significant accounts and activities of the Company were considered in accordance with the risk-focused examination process.

This examination report includes a summary of significant findings for the following items as called for in the Handbook:

- Significant subsequent events
- Company history
- Corporate records
- Management and control
- Territory and plan of operation
- Loss experience
- Reinsurance
- Accounts and records
- Financial statements
- Summary of recommendations

A review was also made to ascertain what action was taken by the Company with regard to comments and 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**

The Sauquoit Valley Insurance Company was incorporated under the laws of the State of New York on February 21, 1878 for the purpose of transacting business as an assessment co-operative fire insurance company in Herkimer and Oneida Counties of New York State. The territorial limits were extended on January 1, 1987 to cover all counties in New York State, excluding the counties of New York, Kings, Queens, Bronx and Richmond. The writing authority of the Company was also expanded from writing only fire coverage to the writing powers currently authorized and outlined under item 2(B), "Territory and Plan of Operation", in this report.

### **A. Management**

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 or more than twelve members. The board meets four times during each calendar year. At December 31, 2011, the board of directors was comprised of the nine members, divided into three equal groups, with one group being elected at each annual policyholders' meeting for a term of three years.

At December 31, 2011, the board of directors was comprised of the following nine members:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Homer Casler West Winfield, NY	Vice President, Sauquoit Valley Insurance Company
Nicholas Crescenzo Utica, NY	Farmer
Gregory Eisenhut Mohawk, NY	Chief Operating Officer, Mohawk Valley Economic Development
Scott T. Jeffers Oriskany Falls, NY	President, Sauquoit Valley Insurance Company
Edward Jones Sauquoit, NY	Owner, Lincoln Davies Company

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Sharon K. Linder Sauquoit, NY	Secretary-Treasurer, Sauquoit Valley Insurance Company
Melville Merry Frankfort, NY	Retired
Raymond Paddock Remsen, NY	Dairy Farmer
Max Townsend Cassville, NY	Chairman of the Board Sauquoit Valley Insurance Company

A review of the minutes of the board of directors' meetings held during the examination period indicated that the meetings were generally well attended and each board member had an acceptable record of attendance.

As of December 31, 2011, the principal officers of the Company were as follows:

<u>Name</u>	<u>Title</u>
Max Townsend	Chairman of the Board
Scott T. Jeffers	President
Sharon K. Linder	Secretary-Treasurer
Homer Casler	Vice-President

B. Territory and Plan of Operation

As of December 31, 2011, the Company was licensed to write business in New York State, in all counties except New York, Kings, Queens, Bronx and Richmond.

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
12	Collision
13	Personal injury liability
14	Property damage liability

<u>Paragraph</u>	<u>Line of Business</u>
15	Workers' compensation and employers' liability (excluding workers' compensation)
19	Motor vehicle and aircraft physical damage (excluding aircraft physical damage_
20	Marine and inland marine (excluding inland marine)

Based on the lines of business for which the Company is licensed and the Company's current capital structure, and pursuant to the requirements of Articles 13 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 following schedule shows the direct premiums written by the Company for the period under examination:

<u>Calendar Year</u>	<u>Direct Premiums Written</u>
2007	\$1,024,678
2008	\$1,018,072
2009	\$ 996,705
2010	\$ 969,472
2011	\$ 972,956

The Company writes predominantly farmowners' multiple peril and homeowners' multiple peril lines of business, which accounted for 40.2% and 44.0%, respectively, of the 2011 net premium writings. The premium is produced by two agents who are employees of the Company.

#### C. Reinsurance

The Company did not assume any reinsurance during the examination period.

The Company has structured its ceded reinsurance program to limit its maximum exposure to any one risk as follows:

<u>Type of Treaty</u>	<u>Cession</u>
Property Excess of Loss (2 layers) 100% Authorized	\$450,000 excess of \$50,000 ultimate net loss, each loss, each risk subject to a limit of liability to the Reinsurer of \$450,000 each loss, each risk and further subject to a limit of liability to the Reinsurer of \$750,000 each occurrence.

<u>Type of Treaty</u>	<u>Cession</u>
Property Catastrophe Excess of Loss (2 layers) 100% Authorized	1 <sup>st</sup> layer: 95% of excess of \$100,000 ultimate net loss, further subject to a limit of liability to the Reinsurer of \$855,000 (95% of \$900,000) each loss occurrence. Coverage attaches only if there are three or more losses due to each occurrence.  2 <sup>nd</sup> layer: 100% of excess of \$1,000,000 ultimate net loss, each loss occurrence. Coverage attaches only if there are three or more losses due to each occurrence.
Casualty Excess of loss (2 layers) 100% Authorized	\$450,000 excess of \$50,000 ultimate net loss, each loss occurrence, subject to a limit of liability to the Reinsurer of \$450,000 each loss occurrence.
Special Casualty Excess of Loss 100% Authorized	\$500,000 excess of \$500,000 ultimate net loss over and above an initial Ultimate Net Loss of \$500,000 each loss occurrence.
Casualty Clash Excess of Loss 100% Authorized	\$500,000 excess of \$500,000 ultimate net loss over and above an initial Ultimate Net Loss of \$500,000 each loss occurrence, subject to a limit of liability to the Reinsurer of \$500,000 each loss occurrence.  With respect to workers compensation insurance as required by subsection (j) of Section 3420 of the New York Insurance Law, no claim shall be made unless the Company has first sustained ultimate net loss in excess of \$1,000,000. The reinsurer shall then reimburse the Company for the whole of such excess.

Facultative property coverage is maintained whereby cessions are limited to an amount equal to four times the Company's net retention plus the amount ceded to the Company's working reinsurance contracts, subject to a minimum net retention of \$200,000 and to a maximum cession of \$750,000 on any one risk covered.

Facultative casualty coverage is maintained for all limits in excess of \$1,000,000. Cessions to this contract are subject to a limit of liability to the Reinsurer of \$1,000,000 each occurrence, each policy.

The Company also maintains aggregate excess of loss reinsurance for 95% of the ultimate net loss in excess of initial ultimate net loss equal to 85% of the gross net earned premium income

subject to a limit of liability to the reinsurer of \$475,000 (95% of \$500,000) aggregate net losses any one contract year.

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 SSAP No. 62. Representations were supported by 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. All ceded reinsurance agreements were accounted for utilizing reinsurance accounting as set forth in paragraphs 17 through 33 of SSAP No. 62.

During the period covered by this examination, the company did not commute any reinsurance agreements where it is was a ceding reinsurer.

D. Holding Company System

As of December 31, 2011, the Company was not a member of any holding company system. The Company was independent with no affiliations or pooling agreements in force at December 31, 2011.

E. Significant Operating Ratios

The following ratios have been computed as of December 31, 2011, based upon the results of this examination:

Net premiums written to surplus as regards policyholders	20%
Liabilities to liquid assets (cash and invested assets less investments in affiliates)	18%
Premiums in course of collection to surplus as regards policyholders	1%

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 covered by this examination:

	<u>Amounts</u>	<u>Ratios</u>
Losses and loss adjustment expenses incurred	\$2,390,305	71.25%
Other underwriting expenses incurred	1,045,519	31.17
Net underwriting loss	<u>(81,156)</u>	<u>(2.42)</u>
Premiums earned	<u>\$3,354,668</u>	<u>100.00%</u>

F. Accounts and Records

i. Department Regulation 96 states the following, in pertinent part:

*Insurers shall report all fire losses in excess of \$1,000 involving applicable property, except losses to vehicles registered for use on public highways, to PILR within five business days following receipt of notice of loss. If the insurer has not received a response from PILR within 15 calendar days following its submission of the fire loss report to PILR, the insurer shall continue to complete the adjustment of the loss.*

On examination, it was noted that the Company did not send the required notification to PILR within five business days for two out the seven fire losses for which the incurred losses exceeded \$1,000. It is recommended that the Company comply with Department Regulation 96 by reporting all fire losses in excess of \$1,000 to PILR within 5 business days following receipt of notice of these losses.

ii. Department Regulation 152, Part (b)(8) states in pertinent part:

*(b) Except as otherwise required by law or regulation, an insurer shall maintain:  
(8) Any other record for six calendar years from its creation or until after the filing of a report on examination or the conclusion of an investigation in which the record was subject to review.*

Upon examination, it was noted that the Company did not maintain records of amounts reported as Premium and Considerations in sufficient detail to verify these amounts. It is recommended that the Company comply with Regulation 152 Part (b)(8) by maintaining records regarding Premium and Considerations in sufficient details so that amounts reported can be verified.

### 3. FINANCIAL STATEMENTS

#### A Balance Sheet

The following shows the assets, liabilities and surplus as regards policyholders as of December 31, 2011 as determined by this examination and as reported by the Company:

<u>Assets</u>	<u>Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>
Bonds	\$ 351,384	\$ 0	\$ 351,384
Common stocks	3,514,212	0	3,514,212
Properties occupied by the company	41,545	0	41,545
Cash, cash equivalents and short-term investments	166,909	0	166,909
Other invested assets	120,842	120,842	0
Investment income due and accrued	7,041	0	7,041
Uncollected premiums and agents' balances in the course of collection	41,361	0	41,361
Deferred premiums, agents' balances and installments booked but deferred and not yet due	110,861	0	110,861
Amounts recoverable from reinsurers	33,606	0	33,606
Current federal and foreign income tax recoverable and interest thereon	6,563	0	6,563
Electronic data processing equipment and software	870	0	870
Furniture and equipment, including health care delivery assets	25,152	25,152	0
NBT fee reimbursement due	<u>1,994</u>	<u>0</u>	<u>1,994</u>
Totals	<u>\$4,422,340</u>	<u>\$145,994</u>	<u>\$4,276,346</u>

#### Liabilities, surplus and other funds

Losses and loss adjustment expenses	\$ 214,519
Other expenses (excluding taxes, licenses and fees)	22,038
Net deferred tax liability	86,000
Unearned premiums	502,945
Advance premiums	12,910
Ceded reinsurance premiums payable (net of ceding commissions)	<u>13,149</u>
Total liabilities	\$ 851,561
Required Surplus	100,000
Unassigned funds (surplus)	<u>3,324,785</u>
Surplus as regards policyholders	<u>\$3,424,785</u>
Totals	<u>\$4,276,346</u>

Note: The Internal Revenue Service did not audit the Company's federal income tax returns for the years under examination. Audits covering subsequent years have yet to commence. 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 increased \$380,296 during the five-year examination period January 1, 2007 through December 31, 2011, detailed as follows:

Underwriting Income

Premiums earned		\$3,354,668
Deductions:		
Losses and loss adjustment expenses incurred	\$2,390,305	
Other underwriting expenses incurred	<u>1,045,519</u>	
Total underwriting deductions		<u>3,435,824</u>
Net underwriting gain or (loss)		\$( 81,156)

Investment Income

Net investment income earned	\$ 505,219	
Net realized capital gain	<u>(68,245)</u>	
Net investment gain or (loss)		436,974

Other Income

Net gain or (loss) from agents' or premium balances charged off	\$( 855)	
Finance and service charges not included in premiums	33,574	
Aggregate write-ins for miscellaneous income	<u>1,542</u>	
Total other income		<u>34,261</u>
Net income after dividends to policyholders but before federal and foreign income taxes		\$ 390,079
Federal and foreign income taxes incurred		<u>36,725</u>
Net Income		<u>\$ 353,354</u>

Surplus as regards policyholders per report on examination as of December 31, 2006				\$3,044,489
	<u>Gains in Surplus</u>	<u>Losses in Surplus</u>		
Net income	\$353,354			
Net unrealized capital gains or (losses)	131,226			
Change in net deferred income tax		5,354		
Change in nonadmitted assets	<u>0</u>	<u>98,930</u>		
Net increase (decrease) in surplus	<u>\$484,580</u>	<u>\$104,284</u>	<u>\$ 380,296</u>	
Surplus as regards policyholders per report on examination as of December 31, 2011				<u>\$3,424,785</u>

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

The examination liability for the captioned items of \$214,519 is the same as reported by the Company as of December 31, 2011. The examination analysis was conducted in accordance with generally accepted actuarial principles and practices and was based on statistical information contained in the Company's internal records and in its filed annual statements.

#### **5. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION**

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

<u>ITEM</u>	<u>PAGE NO.</u>
A <u>Reinsurance</u>	
i.   It was recommended that the Company comply with Section 6606(a)(2) of the NYIL and only cede reinsurance to an authorized/accredited reinsurer.	6
The Company has complied with this recommendation.	
ii.   It was recommended that the Company comply with the annual statement instructions and include all required information in the Schedule F, Part 3 in all future statements filed with this Department.	6
The Company has complied with this recommendation.	

<u>ITEM</u>	<u>PAGE NO.</u>
B. <u>Accounts and Records</u>	
i.    It was recommended that the Company comply with section 6613 of the NYIL and bring its expenses of management in line with the statutory limit.	8
The Company has complied with this recommendation.	
ii.   It was recommended that the management establish and maintain written documentation supporting the allocation of each expense category to the major expense groups as required by SSAP No. 70.	8
The Company has complied with this recommendation.	
iii.   It was recommended that the Company maintain a complaint log that contains all of the information required by Department Circular Letter No. 11 (1978)	9
The Company has complied with this recommendation.	
iv.    It was recommended that the Company comply with Section 1409(a) of the NYIL and limit its investments in any one institution to ten percent of its admitted assets.	9
The Company has complied with this recommendation.	

## **6. SUMMARY OF COMMENTS AND RECOMMENDATIONS**

<u>ITEM</u>	<u>PAGE NO.</u>
A.     Accounts and Records	
i.    It is recommended that the Company comply with Department Regulation 96 by reporting all fire losses in excess of \$1,000 to PILR within 5 business days following receipt of notice of these losses.	8
ii.   It is recommended that the Company comply with Regulation 152 Part (b)(8) by maintaining records regarding Premium and Considerations in sufficient details so that amounts reported can be verified.	8



*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:*

*Frank Schiraldi*

*as a proper person to examine the affairs of the*

*SAUQUOIT VALLEY 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 24<sup>th</sup> day of May, 2012*

*BENJAMIN M. LAWSKY  
Superintendent of Financial Services*

*By:*

  
\_\_\_\_\_  
*Jean Marie Cho  
Deputy Superintendent*

