

REPORT ON EXAMINATION

OF

SAUQUOIT VALLEY INSURANCE COMPANY

AS OF

DECEMBER 31, 2016

DATE OF REPORT

JULY 21, 2017

EXAMINER

LAMIN JAMMEH

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NEW YORK STATE
DEPARTMENT *of*
FINANCIAL SERVICES

Andrew M. Cuomo
Governor

Maria T. Vullo
Superintendent

June 11, 2018

Honorable Maria T. Vullo
Superintendent
New York State Department of Financial Services
New York, New York 10004

Madam:

Pursuant to the requirements of the New York Insurance Law, and in compliance with the instructions contained in Appointment Number 31584 dated March 29, 2017, attached hereto, I have made an examination into the condition and affairs of Sauquoit Valley Insurance Company as of December 31, 2016, 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 13456.

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, 2017. This examination covered the five-year period from January 1, 2012 through December 31, 2016. 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. The examiners also relied upon audit work performed by the Company’s independent public accountants when appropriate.

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

- Company history
- Management and control
- Territory and plan of operation
- Growth of Company
- Reinsurance
- Loss experience
- 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 seven nor more than twelve members. The board meets four times during each calendar year. At December 31, 2016, 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
Michael J. Cosgrove Clinton, NY	Retired
Nicholas Crescenzo Utica, NY	Farmer
Gregory Eisenhut Mohawk, NY	Chief Operating Officer Mohawk Valley Economic Development

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Scott T. Jeffers Oriskany Falls, NY	President Sauquoit Valley Insurance Company
Edward Jones Sauquoit, NY	Owner Lincoln Davies Company
Raymond Paddock Remsen, NY	Dairy Farmer
Sharon K. Schreck Sauquoit, NY	Secretary/Treasurer Sauquoit Valley Insurance Company
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, 2016, the principal officers of the Company were as follows:

<u>Name</u>	<u>Title</u>
Scott T. Jeffers	President
Sharon K. Schreck	Secretary and Treasurer
Homer Casler	Vice President

B. Territory and Plan of Operation

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

<u>Paragraph</u>	<u>Line of Business</u>
13	Personal injury liability
14	Property damage liability
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)

The Company is also authorized to accept/cede reinsurance of the kinds of insurance it is licensed to do directly according to Section 6606(a)(1) of the New York Insurance Law.

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 following schedule shows the direct premiums written by the Company for the period under examination:

<u>Calendar Year</u>	<u>Direct Premiums Written</u>
2012	\$ 987,372
2013	\$1,003,996
2014	\$ 976,993
2015	\$ 970,354
2016	\$ 964,029

The Company writes predominantly homeowners multiple peril and farm owners' multiple peril lines of business which accounted for 42.62% and 33.20%, respectively, of the direct premiums written in 2016. The premium is primarily produced by two agents who are employees of the Company.

C. Reinsurance

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

The Company has structured its ceded reinsurance program as follows:

<u>Type of Treaty</u>	<u>Coverage</u>
<u>Excess Multiple Line</u>	
Property Business	\$400,000 excess of \$50,000 ultimate net loss each loss each risk; limit \$800,000 per occurrence.
Casualty Business	\$400,000 excess of \$50,000 ultimate net loss each loss each risk; limit \$400,000 per occurrence.
<u>Combined Property and Casualty Business</u>	\$50,000 excess of \$50,000 ultimate net loss each loss each risk.
Casualty Clash	\$500,000 excess of \$500,000 ultimate net loss each loss occurrence.
Property Catastrophe Excess of Loss	
First layer	95% of \$900,000 excess of \$100,000 ultimate net loss each loss occurrence. Coverage attaches only if loss occurrence involves three or more risks
Second Layer	100% of excess of \$1,000,000 ultimate net loss, each loss occurrence. Coverage attaches only if loss occurrence involves three or more risks.
Special Casualty Excess of Loss	\$500,000 excess of \$500,000 ultimate net loss each loss occurrence.
Aggregate Excess of Loss	95% of \$500,000 excess of initial net loss of 85% of gross net earned premium income.

Facultative property coverage is maintained and cessions to this contract are limited to a minimum net retention of \$200,000 and to a maximum cession of \$750,000 on any one risk.

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 with an annual aggregate limit of \$2,000,000

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 appropriate risk transfer analyses and an attestation from the Company's President and Secretary pursuant to the NAIC Annual Statement Instructions. Additionally, examination review indicated that the Company was not a party to any finite reinsurance agreements. All ceded reinsurance agreements were accounted for utilizing reinsurance accounting as set forth in SSAP No. 62R.

D. Holding Company System

The Company is a stand-alone assessment cooperative insurer.

E. Significant Operating Ratios

The following ratios have been computed as of December 31, 2016:

Net premiums written to surplus as regards policyholders	16%
Liabilities to liquid assets (cash and invested assets less investments in affiliates)	15%
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	\$2,591,654	79.97%
Other underwriting expenses incurred	1,194,480	36.86
Net underwriting loss	<u>(545,294)</u>	<u>(16.83)</u>
Premiums earned	<u>\$3,240,840</u>	<u>100.00%</u>

F. Accounts and Records

The board of directors or a committee thereof did not approve several of the Company's investments transactions at their next meeting as required by Section 1411(a) of the New York Insurance Law, which states:

“No domestic insurer shall make any loan or investment, except as provided in subsection (h) hereof, unless authorized or approved by its board of directors or a committee thereof responsible for supervising or making such investment or loan. The committee's minutes shall be recorded and a report submitted to the board of directors at its next meeting.”

It is recommended that the Company comply with the requirements of Section 1411(a) of the New York Insurance Law and present its investments for approval or authorization to the board of directors or a committee thereof.

The Company's Investment Guidelines and Policy only recommends the reporting of investments on an annual basis. This is contrary to Section 1411(a) that requires approval of investments at the board meetings.

It recommended that the Company update its policy and guidelines to be consistent with Section 1411(a) of the New York Insurance Law

3. FINANCIAL STATEMENTS

A. Balance Sheet

The following shows the assets, liabilities and surplus as regards policyholders as of December 31, 2016 as reported by the Company:

<u>Assets</u>	<u>Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>
Bonds	\$ 602,992	\$ 0	\$ 602,992
Common stocks	3,303,854		3,303,854
Properties occupied by the company	41,756		41,756
Cash, cash equivalents and short-term investments	551,689		551,689
Investment income due and accrued	1,890		1,890
Uncollected premiums and agents' balances in the course of collection	25,441		25,441
Deferred premiums, agents' balances and installments booked but deferred and not yet due	140,776		140,776
Current federal and foreign income tax recoverable and interest thereon	29,498		29,498
Furniture and equipment, including health care delivery assets	<u>12,559</u>	<u>12,559</u>	<u>0</u>
Total assets	<u>\$4,710,455</u>	<u>\$12,559</u>	<u>\$4,697,896</u>
 <u>Liabilities</u>			
Losses and loss adjustment expenses			\$ 210,398
Commissions payable, contingent commissions and other similar Charges			250
Other expenses (excluding taxes, licenses and fees)			31,198
Net deferred tax liability			61,400
Unearned premiums			492,268
Advance premium			17,258
Ceded reinsurance premiums payable (net of ceding commissions)			14,161
Amounts withheld or retained by company for account of others			<u>107</u>
Total liabilities			827,040
 <u>Surplus and Other Funds</u>			
Unassigned funds (surplus)		<u>\$3,870,856</u>	
Surplus as regards policyholders			<u>3,870,856</u>
Total liabilities, surplus and other funds			<u>\$4,697,896</u>

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

The net income for the examination period as reported by the Company was \$115,952, detailed as follows:

Underwriting Income

Premiums earned		\$3,240,840
Deductions:		
Losses and loss adjustment expenses incurred	\$2,591,654	
Other underwriting expenses incurred	<u>1,194,480</u>	
Total underwriting deductions		<u>3,786,134</u>
Net underwriting loss		(545,294)

Investment Income

Net investment income earned	425,630	
Net realized capital gain	<u>227,546</u>	
Net investment gain		653,176

Other Income

Net loss from agents' or premium balances charged off	(13,339)	
Finance and service charges not included in premiums	35,033	
Aggregate write-ins for miscellaneous income	<u>498</u>	
Total other income		<u>22,192</u>
Net income before federal income taxes		130,074
Federal income taxes incurred		<u>14,122</u>
Net income		<u>\$ 115,952</u>

C. Surplus as Regards Policyholders

Surplus as regards policyholders increased \$446,071 during the five-year examination period January 1, 2012 through December 31, 2016 as reported by the Company, detailed as follows:

Surplus as regards policyholders as reported by the Company as of December 31, 2011			\$3,424,785
	<u>Gains in Surplus</u>	<u>Losses in Surplus</u>	
Net income	\$115,952		
Net unrealized capital gains or (losses)	180,384		
Change in net deferred income tax	16,300		
Change in non-admitted assets	<u>133,435</u>	–	
Total gains and losses	<u>\$446,071</u>	<u>0</u>	
Net increase in surplus			\$ <u>446,071</u>
Surplus as regards policyholders as reported by the Company as of December 31, 2016			<u>\$3,870,856</u>

4. LOSSES AND LOSS ADJUSTMENT EXPENSES

The examination liability for the captioned items of \$210,398 is the same as reported by the Company as of December 31, 2016. 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 the NAIC Accounting Practices & Procedures Manual, Statement of Statutory Accounting Principle No. 55 (“SSAP No. 55”).

5. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

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

<u>ITEM</u>	<u>PAGE NO.</u>
A	
<u>Accounts and Records</u>	
i.	8
It was recommended that the Company comply with Department Regulation 96 by reporting all fire losses in excess of \$1,000 to PIRL within five business days following receipt of notice of loss.	
The Company has complied with this recommendation.	
ii.	8
It was 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.	
The Company has complied with this recommendation.	

6. SUMMARY OF COMMENTS AND RECOMMENDATIONS

<u>ITEM</u>		<u>PAGE NO.</u>
A.	<u>Accounts and Records</u>	
i.	It is recommended that the Company comply with the requirements of Section 1411(a) of the New York Insurance Law and present its investments for approval or authorization to the board of directors or a committee thereof.	8
ii.	It is recommended that the Company update its policy and guidelines to be consistent with Section 1411(a) of the New York Insurance Law.	8

Respectfully submitted,

Lamin Jammeh
Senior Insurance Examiner

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

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

Lamin Jammeh

Subscribed and sworn to before me

this _____ day of _____, 2018.

APPOINTMENT NO. 31584

NEW YORK STATE

DEPARTMENT OF FINANCIAL SERVICES

I, Maria T. Vullo, Superintendent of Financial Services of the State of New York, pursuant to the provisions of the Financial Services Law and the Insurance Law, do hereby appoint:

Lamin Jammeh

as a proper person to examine the affairs of the

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 by name
and affixed the official Seal of the Department
at the City of New York*

this 29th day of March, 2017

MARIA T. VULLO
Superintendent of Financial Services



By:

Joan P. Riddell

*Joan Riddell
Deputy Bureau Chief*