

REPORT ON EXAMINATION

OF THE

WALTON CO-OPERATIVE FIRE INSURANCE COMPANY

AS OF

DECEMBER 31, 2010

DATE OF REPORT

AUGUST 26, 2011

EXAMINER

JOHN CONLEY

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NEW YORK STATE  
DEPARTMENT *of*  
FINANCIAL SERVICES

Andrew M. Cuomo  
Governor

Benjamin M. Lawsky  
Superintendent

August 26, 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 30725 dated June 14, 2011, attached hereto, I have made an examination into the condition and affairs of Walton 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 Walton 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 30750 State Highway 10, Walton, New York 13856.

## **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 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.

This report on examination is confined to financial statements and comments on those matters, which involve departures from laws, regulations or rules, or which are deemed to require explanation or description.

## **2. DESCRIPTION OF COMPANY**

Walton Co-operative Fire Insurance Company was organized on October 20, 1888, for the purpose of transacting business as an assessment co-operative fire insurance company in the Town of Walton, Delaware County, New York.

The current license, issued December 12, 1986 with an effective date of January 1, 1987, authorizes the Company to transact business within the entire County of Delaware, in this state.

### **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 eleven nor more than fifteen members. As of December 31, 2010, the board of directors was comprised of thirteen members. The Board meets monthly during each calendar year. At December 31, 2010, the board of directors was comprised of the following thirteen members:

Name and ResidencePrincipal Business Affiliation

Joseph J. Augustine  
Walton, NY

Retired

Harry J. Constable  
Walton, NY

Retired Farmer  
President,  
Walton Co-operative Fire Insurance Company

James C. Curtin  
Walton, NY

Self-employed

Brenda Gladstone  
East Meredith, NY

Secretary/Treasurer,  
Walton Co-operative Fire Insurance Company

Bruce Henderson  
Walton, NY

Retired Teacher

Theron Howland, Jr.  
Walton, NY

Truck Driver

Eleanor C. MacGibbon  
Walton, NY

Retired Secretary  
Assistant Secretary/Treasurer,  
Walton Co-operative Fire Insurance Company

Georgiana McCall  
Walton, NY

Self-employed

Gordon Mead  
Sidney Center, NY

Self-employed

Allan Reynolds  
Walton, NY

Retired Regional Manager,  
Department Environmental Protection  
Self-employed Electrician

Selinda M. Taggart  
Walton, NY

Dental Hygienist

Niles Wilson  
Walton, NY

Self-employed  
Vice President,  
Walton Co-operative Fire Insurance Company

Wendy Worden  
Trout Creek, NY

Banker/Loan Clerk

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 has an acceptable record of attendance.

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

<u>Name</u>	<u>Title</u>
Harry J. Constable	President
Niles Wilson	Vice President
Brenda Gladstone	Secretary/Treasurer
Eleanor C. MacGibbon	Assistant Secretary/Treasurer

B. Territory and Plan of Operation

The Company is licensed to transact business in Delaware County, only. The following schedule shows the direct premiums written by the Company in New York for the period under examination:

<u>Calendar Year</u>	<u>Direct Premium Written</u>
2006	\$68,387
2007	\$63,858
2008	\$64,567
2009	\$64,905
2010	\$63,365

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

Policies are issued by the Company for a term of three years, with applications being received and inspections made by the Company's director-agents. Assessments are collected at the home office of the Company.

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.

C. Reinsurance

The Company does not have any assumed business.

The Company has structured its ceded reinsurance program as follows:

<u>Type of Treaty</u>	<u>Cession</u>
Property per Risk Excess of Loss (1 layer)	100% of \$70,000 in excess of \$14,000 per risk, per loss.
Property Catastrophe	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 has remained at \$14,000 per risk, per loss on property risks and is currently at 10% of surplus per occurrence for windstorm catastrophe.

As of December 31, 2010, the reinsurance activity reflected in the Company's Schedule F represented only premium cessions. This activity was found to be accurate.

The 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.

The Company's cessions during the period under examination were to authorized reinsurers.

D. Holding Company System

The Company is not a member of any holding company system.

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	0.08 to 1
Liabilities to cash and invested assets	4.93%

The above ratios fell 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:

	<u>Amounts</u>	<u>Ratios</u>
Loss and loss adjustment expenses	\$ 63,904	21.92%
Other underwriting expenses	277,310	90.77
Net underwriting gain	<u>35,798</u>	<u>(11.69)</u>
Premiums earned	<u>\$305,506</u>	<u>100.00%</u>

F. Accounts and Records

1. Investments

The review of the Company's investment transactions disclosed that the acquisition date of certain securities as reported in Schedule D of the 2010 annual statement corresponded to the settlement date of the security and not the trade date. According to NAIC Accounting Practices and Procedures Manual, Statements of Statutory Accounting Principles ("SSAP") 26 paragraph 4, a bond acquisition or disposal should be the trade date and not the settlement date.

It is recommended that the Company comply with SSAP No. 26, paragraph 4.

2. Schedule P

The Company reported on page 3 of the 2010 Annual Statement loss reserves in the amount of \$2,610. This liability differs from the amount reported in Schedule P column 35 which totaled \$35,000. Upon inquiry about this discrepancy, the Company indicated that Schedule P had been incorrectly filled out and that the amount reflected in page 3, line 1 represented the true balance.

It is recommended that the Company exercise greater care in the preparation of Schedule P.



### 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:

<u>Assets</u>	<u>Assets</u>	Non Admitted <u>Assets</u>	<u>Net Assets</u>
Bonds	\$ 708,685		\$708,685
Common stocks	95,656		95,656
Cash and short-term investments	66,111		66,111
Electronic data processing equipment and software	\$ 1,194	\$1,194	\$ 0
Total assets	<u>\$ 871,646</u>	<u>\$1,194</u>	<u>\$870,452</u>

#### Liabilities, Surplus and Other Funds

##### Liabilities

Losses and loss adjustment expenses		\$ 2,610
Unearned premiums		39,709
Advance premium		<u>657</u>
Total liabilities		\$42,976

##### Surplus and Other Funds

Special surplus funds	\$100,000	
Unassigned funds (surplus)	<u>727,476</u>	
Surplus as regards policyholders		<u>827,476</u>
Total liabilities, surplus and other funds		<u>\$ 870,452</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. Underwriting and Investment Exhibit

Surplus as regards policyholders increased \$102,352 during the five-year examination period January 1, 2006 through December 31, 2010, detailed as follows:

Underwriting Income

Premiums earned		\$305,506
Deductions:		
Losses and loss adjustment expenses incurred	\$ 63,904	
Other underwriting expenses incurred	<u>277,310</u>	
Total underwriting deductions		<u>341,214</u>
Net underwriting gain or (loss)		\$(35,708)

Investment Income

Net investment income earned	\$143,150	
Net realized capital gain	<u>1,872</u>	
Net investment gain or (loss)		145,022

Other Income

Aggregate write-ins for other income	\$ 12	
Other miscellaneous income	<u>220</u>	
Total other income		<u>232</u>
Net income		<u>\$109,546</u>

C. Capital and Surplus

Surplus as regards policyholders per report on examination as of December 31, 2005			\$725,124
	<u>Gains in Surplus</u>	<u>Losses in Surplus</u>	
Net income	\$109,546		
Net unrealized capital gains or (losses)		\$5,700	
Change in non-admitted assets	<u>0</u>	<u>1,494</u>	
Total gain and losses	<u>\$109,546</u>	<u>\$7,194</u>	
Net increase (decrease) in surplus			<u>102,352</u>
Surplus as regards policyholders per report on examination as of December 31, 2010			<u>\$827,476</u>

4. LOSSES AND LOSS ADJUSTMENT EXPENSES

The examination liability for the captioned items of \$2,610 is the same as reported by the Company as of December 31, 2010.

5. MARKET CONDUCT ACTIVITIES

In the course of this examination, a review was made of the manner in which the Company conducts its business and fulfills its contractual obligations to policyholders and claimants. The review was general in nature and is not to be construed to encompass the more precise scope of a market conduct investigation, which is the responsibility of the Market Conduct Unit of the Property Bureau of this Department.

The general review was directed at practices of the Company in the following areas:

- A. Sales
- B. Underwriting
- C. Claims and complaint handling

No problem areas were encountered.

## 6. 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>Management</u>	
It was recommended that Director Matthew Batson either improve his attendance or be replaced by the policyholders.	4
The Company has complied with this recommendation.	
B. <u>Accounts and Records</u>	
i. <u>Custodial Agreement</u>	
It was recommended that the Company amend its current custodial agreement with National Bank of Delaware County to include the controls suggested by Part IV (J) of the NAIC Examiner’s Handbook.	6
The Company has complied with this recommendation.	
ii. <u>Electronic Data Processing (“EDP”) Equipment</u>	
It was recommended that the Company comply with New York State Insurance Law 1301 (a) (18) henceforth.	6
The Company has complied with this recommendation.	
iii. <u>Furniture and Fixtures</u>	
It was recommended that the Company properly classify as nonadmitted assets Furniture and Equipment in accordance with SSAP No. 19, Paragraph 2.	7
The Company has complied with this recommendation.	
iv. <u>Unearned Premiums</u>	
It was recommended that the Company comply with the requirements of SSAP No. 53 and select one of the prescribed methods for Unearned Premium calculation.	7
The Company has complied with this recommendation.	

<u>ITEM</u>	<u>PAGE NO.</u>
C. <u>Market Conduct Activities</u>	
It was recommended that the Company comply with the notice of requirement of 11 NYCRR 216.6 (h) Regulation 64 henceforth.	10 - 11
The Company has complied with this recommendation.	

**7. 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 SSAP No. 26, paragraph 4.	6
ii. It is recommended that the Company exercise greater care in the preparation of Schedule P.	6

Respectfully submitted,

\_\_\_\_\_/s/\_\_\_\_\_  
John Conley  
Senior Insurance Examiner

STATE OF NEW YORK     )  
                                  )SS:  
                                  )  
COUNTY OF NEW YORK    )

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

\_\_\_\_\_/s/\_\_\_\_\_  
John Conley

Subscribed and sworn to before me

this \_\_\_\_\_ day of \_\_\_\_\_, 2011.

*Appointment No. 30725*

**STATE OF NEW YORK  
INSURANCE DEPARTMENT**

*I, James J. Wrynn Superintendent of Insurance of the State of New York,  
pursuant to the provisions of the Insurance Law, do hereby appoint:*

**John Conley**

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

**WALTON CO-OPERATIVE FIRE INSURANCE COMPANY**

*and to make a report to me in writing of the condition of the said*

**Company**

*with such other information as he shall deem requisite.*

*In Witness Whereof, I have hereunto subscribed by the  
name and affixed the official Seal of this Department, at  
the City of New York,*

*this 14th day of June, 2011*



*James J. Wrynn*  
\_\_\_\_\_  
JAMES J. WRINN  
Superintendent of Insurance