

REPORT ON EXAMINATION

OF

MIDROX INSURANCE COMPANY

AS OF

DECEMBER 31, 2018

DATE OF REPORT

APRIL 22, 2020

EXAMINER

DILBRINA BELGRAVE, AFE, CISA

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Department of Financial Services

ANDREW M. CUOMO
Governor

LINDA A. LACEWELL
Superintendent

April 22, 2020

Honorable Linda A. Laceywell
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 31945 dated April 30, 2019, attached hereto, I have made an examination into the condition and affairs of Midrox Insurance Company as of December 31, 2018, and submit the following report thereon.

Wherever the designation “the Company” or “MIC” appears herein without qualification, it should be understood to indicate Midrox 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 home office of Mid-Hudson Co-operative Insurance Company located at 104 Bracken Road, Montgomery, New York 12549.

1. SCOPE OF EXAMINATION

The Department has performed an examination of Midrox Insurance Company, a single-state insurer. The previous examination was conducted as of December 31, 2014. This examination covered the four-year period from January 1, 2015 through December 31, 2018. Transactions occurring subsequent to this period were reviewed when deemed appropriate by the examiner.

The examination of the Company was performed concurrently with the examinations of the following insurers: Mid-Hudson Co-operative Insurance Company (“MHCIC”) and Claverack Cooperative Insurance Company (“CCIC”).

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
- Financial statement presentation
- Loss review and analysis
- Market Conduct
- Significant subsequent events
- 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 Company was organized as the Midrox Co-operative Fire Insurance Company on May 26, 1936, for the purpose of transacting business as an assessment cooperative insurance company in the counties of Delaware, Greene, Otsego, Schoharie, and Ulster of this state. Subsequently, the territorial limits were extended to cover all of the counties of this state, excluding the counties of New York, Kings, Queens, Bronx, and Richmond.

On August 1, 1987, the Department issued a certificate authorizing the Company to change its name to its current title.

A. Corporate Governance

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 nor more than 15 members. The board of directors met at least four times during each calendar year, in compliance with Section 6624(b) of the New York Insurance Law. At December 31, 2018, the board of directors was comprised of the following nine members:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Catherine M. Coombe ¹ Grahamsville, NY	Partner, Coombe, Bender & Company, LLC
Greg M. Cooper ¹ North Salem, NY	Vice President, Mid-Hudson Co-operative Insurance Company
William R. Finch Roxbury, NY	Vice President, Midrox Insurance Company
Edward N. Harper ¹ Niskayuna, NY	President & Chief Executive Officer Mid-Hudson Co-operative Insurance Company
Dwayne C. Hill Harpersfield, NY	Partner, Shaver Hill Farm
Dawnette M. Hotaling Franklin, NY	Senior Vice President, Wayne Bank
Charles F. McIntosh Bovina Center, NY	President, McIntosh Abattoir Inc.

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Frederick J. Morse ¹ Margaretville, NY	President Midrox Insurance Company
Gary C. Schmidt ¹ Monticello, NY	Secretary and Treasurer, Mid-Hudson Co-operative Insurance Company

¹ Also serves as a director on both MHCIC and CCIC's board of directors

The Company's audit committee charter states that "the members of the committee shall number four Directors, all of whom shall be independent; and the committee shall meet at least once annually."

The examiner's review of the audit committee minutes noted the following:

- the committee only had three members in 2018;
- the committee did not hold any meetings in 2017 and 2018;
- the committee members were not independent for all years under review.

It is recommended that the Company comply with all provisions of its audit committee charter by ensuring the proper number of members and independence of members, and by holding all required meetings pursuant to its charter.

Part 89.12(e) of Regulation No. 118 states:

"The Company shall provide written notification to the superintendent of the selection of its audit committee within 30 days of the effective date of this Part and within 30 days of any change in membership of the audit committee. The notice shall include a description of the reason for the change".

Based on the review of audit committee membership, there were changes to audit committee memberships for all years under review. The Company failed to notify the Department of changes in membership of the audit committee.

It is recommended that the Company ensure compliance with Department Regulation No. 118 by notifying the Superintendent of all changes in audit committee membership within 30 days.

Article four of the Company's by-laws, in accordance with Section 6624(b) of the New York Insurance Law, states that "the Executive Committee shall consist of four directors...and shall hold three regular meetings during the year".

The examiner's review of the executive committee minutes noted the following:

- the committee met only once in 2016, and only twice in 2017; and
- the committee consisted of only three members in 2017.

It is recommended that the Company comply with all provisions of its by-laws by ensuring the proper number of members, and by holding all required meetings pursuant to its by-laws and Section 6624(b) of the New York Insurance Law.

As of December 31, 2018, the principal officers of the Company were as follows:

<u>Name</u>	<u>Title</u>
Frederick J. Morse	President
Edward N. Harper ²	Secretary
Greg M. Cooper ²	Treasurer
William R. Finch	Vice President

² Also a principal officer of both MHCIC and CCIC

B. Territory and Plan of Operation

As of December 31, 2018, the Company was licensed to write business in the State of New York, excluding the counties of Bronx, Kings, New York, Queens 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
9	Boiler and machinery
12	Collision
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 (inland marine only)

The Company is also licensed to accept and cede reinsurance as provided in Section 6606 of the Insurance Law of the State of New York.

Based on the lines of business for which the Company is licensed and pursuant to the requirements of Articles 13, 41 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>Total Gross Premiums</u>
2015	\$4,867,035
2016	\$5,115,894
2017	\$5,224,413
2018	\$5,229,670

The Company did not assume business during the examination period. The Company writes predominantly commercial multiple peril, farmowners multiple peril and homeowners multiple peril business, which accounted for 33.4%, 26.2% and 14.9%, respectively, of the 2018 direct premiums written. The business is produced through approximately 300 independent agents and brokers.

C. Reinsurance Ceded

The Company entered into a quota share reinsurance agreement, effective January 1, 2018, with MHCIC. Under the terms of the agreement, Midrox cedes 100% of its writings to MHCIC.

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 of the Schedule F data, reported by the Company in its filed annual statement, was found to accurately reflect its material reinsurance transactions. Additionally, management has represented that all material ceded reinsurance agreements transfer both underwriting and timing risk as set forth in the NAIC Accounting Practices and Procedures Manual, Statement of Statutory Accounting Principles (“SSAP”) No. 62R. Representations were supported by an attestation from the Company's President and a board member. However, the NAIC annual statement instructions indicates that the reinsurance attestation is to be made by the Chief Executive Officer and the Chief Financial Officer. As of

December 31, 2018, the board member who signed the reinsurance attestation was not an officer of the Company.

It is recommended that the Company comply with the NAIC annual statement instructions by ensuring that the reinsurance attestation is signed by the appropriate officers of the Company.

Examination review indicated that the Company was not a party to any finite reinsurance agreements.

D. Affiliated Group

As of December 31, 2018, the Company was not a party to an affiliation agreement. However, the Company does share common management and board members with MHCIC and CCIC, as noted in section 2A of this report, and maintains a 100% quota share agreement with MHCIC, as noted in section 2C of this report.

E. Significant Ratios

The Company's operating ratios, computed as of December 31, 2018, 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	0%
Adjusted liabilities to liquid assets	19%
Two-year overall operating	80%

The Company's operating ratio results were the outcome of the 100% quota share agreement noted in section 2C of this report.

Underwriting Ratios

The underwriting ratios presented below are on an earned/incurred basis and encompass the four-year period covered by this examination:

	<u>Amount</u>	<u>Ratio</u>
Losses and loss adjustment expenses incurred	\$6,459,115	65.59%
Other underwriting expenses incurred	2,567,844	26.08
Net underwriting gain (loss)	<u>820,153</u>	<u>8.33</u>
Premiums earned	<u>\$9,847,112</u>	<u>100.00%</u>

The Company's reported risk-based capital ("RBC") score was 2,883.6% at December 31, 2018. The RBC 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

Preparation of annual statement

In the 2018 Annual Statement, the Company neglected to disclose its investment advisor in interrogatory #28.05 of the general interrogatories.

It is recommended that the Company exercise greater care in the preparation of its annual statement in all future filings with this Department.

3. FINANCIAL STATEMENTS

A. Balance Sheet

The following shows the assets, liabilities and surplus as regards policyholders as of December 31, 2018, as reported by the Company:

<u>Assets</u>	<u>Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>
Bonds	\$3,676,610	\$ 0	\$3,676,610
Common stocks	1,331,524	0	1,331,524
Properties occupied by the company	164,593	0	164,593
Cash, cash equivalents and short-term investments	737,528	0	737,528
Investment income due and accrued	31,981	0	31,981
Uncollected premiums and agents' balances in the course of collection	94,292	4,898	89,394
Deferred premiums, agents' balances and installments booked but deferred and not yet due	907,058	0	907,058
Amounts recoverable from reinsurers	104,535	0	104,535
Furniture and equipment, including health care delivery assets	21,292	21,292	0
Aggregate write-ins for other than invested assets	<u>(5)</u>	<u>0</u>	<u>(5)</u>
Total assets	<u>\$7,069,407*</u>	<u>\$26,190</u>	<u>\$7,043,217*</u>

*Rounding difference of \$1

Liabilities, Surplus and Other FundsLiabilities

Losses and loss adjustment expenses	\$ 795,251
Commissions payable, contingent commissions and other similar charges	281,216
Other expenses (excluding taxes, licenses and fees)	51,281
Taxes, licenses and fees (excluding federal and foreign income taxes)	12,304
Current federal and foreign income taxes	86,298
Net deferred tax liability	128,180
Advance premium	45,460
Ceded reinsurance premiums payable (net of ceding commissions)	569,065
Remittances and items not allocated	415
Aggregate write-ins for liabilities	<u>6,644</u>
Total liabilities	\$1,976,114

Surplus and Other Funds

Aggregate write-ins for special surplus funds	\$ 100,000
Unassigned funds (surplus)	<u>4,967,103</u>
Surplus as regards policyholders	<u>5,067,103</u>
Total liabilities, surplus and other funds	<u>\$7,043,217</u>

Note: The Internal Revenue Service has not audited tax returns covering tax years 2015 through 2018. 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

Net income for the examination period as reported by the Company was \$1,539,192 as detailed below:

Underwriting Income

Premiums earned		\$9,847,112
Deductions:		
Losses and loss adjustment expenses incurred	\$6,459,115	
Other underwriting expenses incurred	<u>2,567,844</u>	
Total underwriting deductions		<u>9,026,959</u>
Net underwriting gain or (loss)		\$ 820,153

Investment Income

Net investment income earned	\$496,797	
Net realized capital gain	<u>185,143</u>	
Net investment gain or (loss)		681,940

Other Income

Net gain or (loss) from agents' or premium balances charged off	\$ 8,912	
Finance and service charges not included in premiums	214,955	
Aggregate write-ins for miscellaneous income	<u>(1,553)</u>	
Total other income		222,314
Net income before federal and foreign income taxes		\$1,724,407
Federal and foreign income taxes incurred		<u>185,215</u>
Net income		<u>\$1,539,192</u>

C. Capital and Surplus

Surplus as regards policyholders increased \$1,710,951 during the four-year examination period January 1, 2015 through December 31, 2018, as reported by the Company, detailed as follows:

Surplus as regards policyholders as reported by the Company as of December 31, 2014			\$3,356,152
	<u>Gains in Surplus</u>	<u>Losses in Surplus</u>	
Net income	\$1,539,192		
Net unrealized capital gains or (losses)	112,739		
Change in net deferred income tax		\$343,687	
Change in non-admitted assets	8,956		
Aggregate write-ins for gains and losses in surplus	<u>393,750</u>	<u>0</u>	
Total gains and losses	\$2,054,638	\$343,687	
Net increase (decrease) in surplus			<u>1,710,951</u>
Surplus as regards policyholders as reported by the Company as of December 31, 2018			<u>\$5,067,103</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 \$795,251 is the same as reported by the Company as of December 31, 2018. 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.

5. MARKET CONDUCT

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. Furthermore, the general review was directed to ascertain compliance with the prior report on examination recommendation.

Part 216.6(h) of Department Regulation No. 64 states the following:

“(h) Any notice rejecting any element of a claim involving personal property insurance shall contain the identity and the claims processing address of the insurer, the insured's policy number, the claim number, and the following statement prominently set forth:

"Should you wish to take this matter up with the New York State Department of Financial Services, you may file with the department either on its website at <http://www.dfs.ny.gov/consumer/fileacomplaint.htm> or you may write to or visit the Consumer Assistance Unit, Financial Frauds and Consumer Protection Division, New York State Department of Financial Services, at: One State Street, New York, NY 10004; One Commerce Plaza, Albany, NY 12257; 1399 Franklin Avenue, Garden City, NY 11530; or Walter J. Mahoney Office Building, 65 Court Street, Buffalo, NY 14202."

Examination review of denied claims revealed that the notices in the denial letters either did not include, or was not consistent, with the language specified in Part 216.6(h) of Department Regulation No. 64.

It is recommended that the Company comply with all the requirements of Part 216.6(h) of Department Regulation No. 64 when issuing notices rejecting any element of a claim involving personal property insurance. A similar comment was made in the prior examination report.

6. SUBSEQUENT EVENTS

Effective January 1, 2019, the Company (and MHCIC and CCIC, each individually) entered into a Management Service Agreement with Statewide Underwriters Agency, Inc. (“Statewide”). Under the terms of the agreement, Statewide will provide all underwriting, marketing, claims and some accounting services. This agreement was approved by the Department.

On March 11, 2020, the World Health Organization declared an outbreak of a novel coronavirus (“COVID-19”) pandemic. The risks and uncertainties surrounding the COVID-19 pandemic may impact the Company’s, and its competitors’, operational and financial performance. The extent of the impact of the COVID-19 pandemic on the Company’s operational and financial performance will depend on certain developments, including the duration and spread of the outbreak, regulatory decisions, and the impact on the financial markets. All of these developments are uncertain and cannot be predicted. The related financial impact cannot be reasonably estimated at this time.

7. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

<u>ITEM</u>		<u>PAGE NO.</u>
	<u>Holding company</u>	
A.	Notwithstanding the recommendation contained in the prior report on examination, the Company continued to violate Section 307 of the New York Insurance Law by failing to correctly complete its investment schedules with information pertaining to its subsidiary, Statewide Underwriters Agency, Inc.	8
	<p>This recommendation is no longer applicable as Statewide Underwriters Agency, Inc. is no longer a subsidiary of the Company.</p>	
B.	<u>Accounts and Records</u>	
i.	It was recommended that the Company comply with the requirements of SSAP No. 40R paragraph 17 when determining the rental charge for the occupancy of its own building.	10
	<p>The Company has complied with this recommendation.</p>	
ii.	Notwithstanding the recommendation contained in the prior report on examination, the Company continued to violate Sections 307 and 2325 of the New York Insurance Law by failing to establish and maintain written documentation supporting the allocation of each type of expense to the three expense groups as required by SSAP No. 70.	11
	<p>The Company has complied with this recommendation.</p>	
C.	<u>Market Conduct</u>	
	Notwithstanding the recommendation contained in the prior report on examination, the Company continued to violate Part 216.6(h) of Department Regulation No. 64 when issuing notices rejecting any element of a claim involving personal property insurance.	16
	<p>The Company has not complied with this recommendation. A similar comment is made in this report.</p>	

8. SUMMARY OF COMMENTS AND RECOMMENDATIONS

<u>ITEM</u>	<u>PAGE NO.</u>
A. <u>Corporate Governance</u>	
i. It is recommended that the Company comply with all provisions of its audit committee charter by ensuring the proper number of members and independence of members, and by holding all required meetings pursuant to its charter.	4
ii. It is recommended that the Company ensure compliance with Department Regulation No. 118 by notifying the Superintendent of all changes in audit committee membership within 30 days.	4
iii. It is recommended that the Company comply with all provisions of its by-laws by ensuring the proper number of members, and by holding all required meetings pursuant to its by-laws and Section 6624(b) of the New York Insurance Law.	5
B. <u>Reinsurance Ceded</u>	
It is recommended that the Company comply with the NAIC annual statement instruction by ensuring that the reinsurance attestation is signed by the appropriate officers of the Company.	7
C. <u>Accounts and Records</u>	
It is recommended that the Company exercise greater care in the preparation of its annual statement in all future filings with this Department.	8
D. <u>Market Conduct</u>	
It is recommended that the Company comply with all the requirements of Part 216.6(h) of Department Regulation No. 64 when issuing notices rejecting any element of a claim involving personal property insurance. A similar comment was made in the prior examination report.	13

Respectfully submitted,

_____/S/_____
Dilbrina Belgrave, AFE, CISA
Senior Insurance Examiner

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

Dilbrina Belgrave, being duly sworn, deposes and says that the foregoing report, subscribed by her, is true to the best of her knowledge and belief.

_____/S/_____
Dilbrina Belgrave

Subscribed and sworn to before me

this _____ day of _____, 2021.

NEW YORK STATE

DEPARTMENT OF FINANCIAL SERVICES

I, Linda A. Lacewell, Acting 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:

Dilbrina Belgrave

as a proper person to examine the affairs of the

Midrox Insurance Company

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

COMPANY

with such other information as she 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 30th day of April, 2019

LINDA A. LACEWELL
Acting Superintendent of Financial Services

By:



Joan Riddell
Deputy Bureau Chief

