

REPORT ON EXAMINATION

OF

CLAVERACK COOPERATIVE INSURANCE COMPANY

AS OF

DECEMBER 31, 2018

DATE OF REPORT

APRIL 22, 2020

EXAMINER

DILBRINA BELGRAVE, AFE, CISA

TABLE OF CONTENTS

<u>ITEM</u>		<u>PAGE NO.</u>
1.	Scope of examination	2
2.	Description of Company	3
	A. Corporate governance	3
	B. Territory and plan of operation	6
	C. Reinsurance ceded	6
	D. Affiliated group	7
	E. Accounts and records	8
3.	Financial statements	10
	A. Balance sheet	10
	B. Statement of income	12
	C. Capital and surplus	13
4.	Losses and loss adjustment expenses	14
5.	Market conduct	14
6.	Subsequent events	15
7.	Compliance with prior report on examination	16
8.	Summary of comments and recommendations	16



Department of Financial Services

ANDREW M. CUOMO
Governor

LINDA A. LACEWELL
Superintendent

April 22, 2020

Honorable Linda A. Lacewell
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 31944 dated April 30, 2019, attached hereto, I have made an examination into the condition and affairs of Claverack Cooperative Insurance Company as of December 31, 2018, and submit the following report thereon.

Wherever the designation “the Company” or “Claverack” appears herein without qualification, it should be understood to indicate Claverack Cooperative 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 Cooperative Insurance Company located at 104 Bracken Road, Montgomery, New York 12549.

1. SCOPE OF EXAMINATION

The Department has performed an examination of Claverack Cooperative Insurance Company, a single-state insurer. The previous examination covered the five-year period ending December 31, 2017. This examination was conducted concurrently with the previous examination, to align with the examinations of affiliates Mid-Hudson Co-operative Insurance Company (“MHCIC”) and Midrox Insurance Company (“MIC”), and covered the one-year period from January 1, 2018 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 MHCIC and MIC.

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

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 Claverack Town Fire Insurance Company in 1857 to transact business as an assessment co-operative fire insurance company in the Town of Claverack, Columbia County, New York. In 1949, the territory was extended to include all of Columbia County. In 1957, the Company merged with the Livingston Town Insurance Company, of Livingston, New York, with the Company being the surviving company.

The Department issued a certificate on February 8, 1971, authorizing the Company to change its name to Claverack Cooperative Insurance Company.

Effective December 31, 2012, the Company merged with Farmers Town Mutual Insurance Company of Clinton (“Farmers”), with the Company being the surviving company. Upon the effective date of the merger, the policyholders of Farmers received dividend payments totaling \$650,000. As a result of the merger, the Company’s surplus increased by \$336,860, net of the dividend payments.

Effective April 2, 2015, the Company and MHCIC became affiliated.

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 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 14 members:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Marc A. Baez ¹ Liberty, NY	Chief Executive Officer & President, The Sullivan County Partnership for Economic Development President, Baez Associates
Catherine Coombe Bender ^{1,2} Grahamsville, NY	Partner, Coombe, Bender & Company, LLC
Katherine M. Buckley ¹ Valatie, NY	Director, Claverack Cooperative Insurance Company

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Greg M. Cooper ^{1,2} Montgomery, NY	Vice President, Claverack Cooperative Insurance Company Vice President, Mid-Hudson Co-operative Insurance Company Treasurer, Midrox Insurance Company
Victoria Cross Salt Point, NY	Retired
Elizabeth Dolan Hudson, NY	Assistant Secretary & Treasurer, Claverack Cooperative Insurance Company
Raymond J. Enright ¹ Stanfordville, NY	Director, Claverack Cooperative Insurance Company
Edward N. Harper ^{1,2} Niskayuna, NY	President, Claverack Cooperative Insurance Company President, Mid-Hudson Co-operative Insurance Company Secretary, Midrox Insurance Company
Maureen M. Hess ¹ Hudson, NY	Director, Claverack Cooperative Insurance Company
Alan R Lewis ¹ Newburgh, NY	Principal, Alan R. Lewis, Esq. Law Firm
Frederick J. Morse ^{1,2} Margaretville, NY	President, Midrox Insurance Company
Kristin Plaia Hudson, NY	School Psychologist, Hudson School District
Gary C. Schmidt ^{1,2} Monticello, NY	Secretary and Treasurer, Claverack Cooperative Insurance Company Secretary and Treasurer, Mid-Hudson Co-operative Insurance Company
Joan Simard Philmont, NY	Retired

¹ Also serves as director on MHCIC's board of directors

² Also serves as a director on MIC's board of directors

The Company's audit committee charter states "the committee will meet at least four times a year". Based on the review of the audit committee meeting minutes, the audit committee met once in 2018. It is recommended that the Company hold all required audit committee meetings to ensure compliance with its audit committee 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 a review of audit committee membership, there was a change to the audit committee membership in 2018. The Company neglected to notify the Department of the change in membership of the audit committee.

It is recommended that the Company ensures compliance with Department Regulation No. 118 by notifying the superintendent of a change in audit committee membership within 30 days.

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

<u>Name</u>	<u>Title</u>
Edward N. Harper ³	President
Gary C. Schmidt ⁴	Secretary and Treasurer
Greg M. Cooper ³	Vice President

³ Also a principal officer of both MHCIC and MIC

⁴ Also a principal officer of MHCIC

B. Territory and Plan of Operation

As of December 31, 2018, the Company was licensed to write business within all counties of New York State, excluding the counties of 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
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 New York Insurance Law.

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. In 2018, the Company's direct premiums written totaled \$3,064,893. The Company writes predominantly commercial multiple peril, homeowners multiple peril, and farmowners multiple peril policies, which accounted for 61.7%, 31.7% and 5.0%, respectively, of direct premiums written in 2018. The business is produced through approximately 300 independent agents and brokers. The Company did not assume business in 2018.

C. Reinsurance Ceded

The Company entered into a quota share reinsurance agreement, effective January 1, 2016, with MHCIC. Under the terms of the agreement, the Company 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 Vice President. 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.

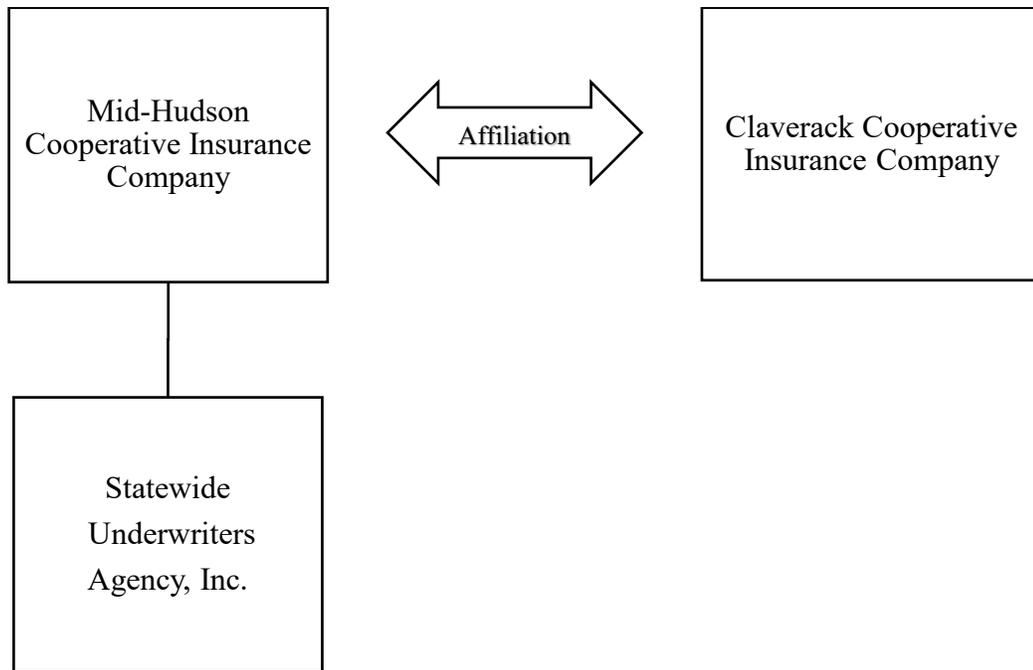
D. Affiliated Group

Effective April 2, 2015, the Company entered into an affiliation agreement with MHCIC, whereby the companies operate under a common management team and board of directors. This agreement was approved by the Department.

Referenced in the affiliation agreement is the quota share agreement, described in section 2C of this report, and an expense sharing agreement. Per the terms of the expense sharing agreement, effective April 2, 2015, the Company and MHCIC share certain insurance business related costs. All expenses incurred by one company on behalf of the other are allocated between the companies in accordance with Department Regulation No. 30. This agreement was approved by the Department.

A review of the holding company registration statements filed with this Department indicated that such filings were complete and were filed in a timely manner pursuant to Department Circular Letter 10 (2010).

The following is a chart of the holding company system at December 31, 2018:



F. Accounts and Records

i. Preparation of annual statement

In its 2018 Annual Statement, the Company neglected to disclose its investment advisor in 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.

ii. Classification of annual statement lines

Page 42 of the NAIC annual statement instructions states that amounts reported for employees' FICA and unemployment contributions, withholdings for purchase of savings bonds, taxes withheld at source and other withholdings, as well as amounts held in escrow for payment of taxes, insurance, etc., under F.H.A. or other mortgage loan investments, or held for guarantee of contract performance and any other funds that the reporting entity holds in a fiduciary capacity for the account of others (excluding reinsurance funds held), should be included in the annual statement on page 3, line 14 "Amounts Withheld or Retained by Company for Account of Others".

Upon review of accounts that comprise page 3, line 5 “Other Expenses (excluding taxes, licenses, and fees)” in the Company's filed 2018 Annual Statement showed that the Company incorrectly included FICA tax.

It is recommended that the Company classify accounts correctly in accordance with the NAIC annual statement instructions in all future financial statements filed with the 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:

Assets

	<u>Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>
Bonds	\$1,497,181	\$ 0	\$1,497,181
Preferred stocks	27,336		27,336
Common stocks	607,359	0	607,359
Cash, cash equivalents and short-term investments	245,592	0	245,592
Investment income due and accrued	10,769	0	10,769
Uncollected premiums and agents' balances in the course of collection	49,454	4,262	45,192
Deferred premiums, agents' balances and installments booked but deferred and not yet due	527,032	0	527,032
Amounts recoverable from reinsurers	290,322	0	290,322
Net deferred tax asset	287,100	287,100	0
Electronic data processing equipment and software	<u>226</u>	<u>0</u>	<u>226</u>
Total assets	<u>\$3,542,372*</u>	<u>\$291,362</u>	<u>\$3,251,010*</u>

*Rounding difference of \$1

Liabilities, Surplus and Other FundsLiabilities

Losses and loss adjustment expenses	\$ 85,478
Commissions payable, contingent commissions and other similar charges	209,003
Other expenses (excluding taxes, licenses and fees)	78,464
Taxes, licenses and fees (excluding federal and foreign income taxes)	51,574
Advance premium	51,028
Ceded reinsurance premiums payable (net of ceding commissions)	1,340,242
Aggregate write-ins for liabilities	<u>3,758</u>
Total liabilities	\$1,819,547

Surplus and other funds

Aggregate write-ins for special surplus funds	\$ 100,000
Unassigned funds (surplus)	<u>1,331,463</u>
Surplus as regards policyholders	<u>1,431,463</u>
Total liabilities, surplus and other funds	<u>\$3,251,010</u>

Note: The Internal Revenue Service has not audited tax returns covering tax year 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 loss for the examination period as reported by the Company was \$(121,459), as detailed below:

Underwriting Income

Premiums earned		\$ 0
Deductions:		
Losses and loss adjustment expenses incurred	\$123,673	
Other underwriting expenses incurred	<u>45,017</u>	
Total underwriting deductions		<u>168,690</u>
Net underwriting gain or (loss)		\$(168,690)

Investment Income

Net investment income earned	\$(11,672)	
Net realized capital gains (losses)	<u>(6,969)</u>	
Net investment gain or (loss)		(18,641)

Other Income

Net gain or (loss) from agents' or premium balances charged off	\$ 643	
Finance and service charges not included in premiums	65,516	
Aggregate write-ins for miscellaneous income	<u>(287)</u>	
Total other income		<u>65,872</u>
Net income before federal and foreign income taxes		\$(121,459)
Federal and foreign income taxes incurred		<u>0</u>
Net income (loss)		<u>\$(121,459)</u>

C. Capital and Surplus

Surplus as regards policyholders decreased by \$158,440 during the one-year examination period January 1, 2018 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, 2018			\$1,589,903
	<u>Gains in</u>	<u>Losses in</u>	
	<u>Surplus</u>	<u>Surplus</u>	
Net income		\$121,459	
Net unrealized capital gains or losses		37,004	
Change in net deferred income tax	\$33,700		
Change in non-admitted assets		33,700	
Aggregate write-ins for gains and losses in surplus	<u>23</u>	<u>0</u>	
Total gains and losses	\$33,723	\$192,163	
Net increase (decrease) in surplus			<u>(158,440)</u>
Surplus as regards policyholders as reported by the Company as of December 31, 2018			<u>\$1,431,463</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 \$85,478 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. Because this examination took place concurrently with the Company's five-year examination as of December 31, 2017 (as explained in section 1 of this report), this review encompassed claims covering the period January 1, 2013 through December 31, 2018.

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.

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

“(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.

6. **SUBSEQUENT EVENTS**

Effective January 1, 2019, the Company (and MHCIC and MIC, each individually) entered into a Management Service Agreement with Statewide Underwriters Agency, Inc. (“Statewide”). Under the terms of the agreement, Statewide provides 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

As explained in section 1, this one-year examination was conducted concurrently with the Company's five-year examination as of December 31, 2017. As such, this section of the report is not applicable.

8. SUMMARY OF COMMENTS AND RECOMMENDATIONS

Because this one-year examination took place concurrently with the Company's examination as of December 31, 2017, the Company's prior report on examination contained similar recommendations.

<u>ITEM</u>	<u>PAGE NO.</u>
A. <u>Corporate Governance</u>	
i. It is recommended that the Company hold all required audit committee meetings to ensure compliance with its audit committee charter.	5
ii. It is recommended that the Company ensures compliance with Department Regulation No. 118 by notifying the superintendent of all changes in audit committee membership within 30 days.	5
B. <u>Accounts and Records</u>	
i. It is recommended that the Company exercise greater care in the preparation of its annual statement in all future filings with this Department.	8
ii. It is recommended that the Company classify accounts correctly in accordance with the NAIC annual statement instructions in all future financial statements filed with the Department.	9
C. <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.	15

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

Claverack Cooperative 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

