

REPORT ON EXAMINATION

OF

FRANKLIN FIRE INSURANCE COMPANY

AS OF

DECEMBER 31, 2018

DATE OF REPORT

JANUARY 13, 2020

EXAMINER

SHEIK H. MOHAMED

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## Department of Financial Services

**KATHY HOCHUL**  
Governor

**ADRIENNE A. HARRIS**  
Acting Superintendent

October 1, 2021

Honorable Adrienne A. Harris  
Acting 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 31968 dated July 16, 2019, attached hereto, I have made an examination into the condition and affairs of Franklin Fire Insurance Company as of December 31, 2018, and submit the following report thereon.

Wherever the designation “the Company” appears herein without qualification, it should be understood to indicate Franklin 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 Department located at One Commerce Plaza, Albany, New York 12257.

## 1. SCOPE OF EXAMINATION

The Department has performed an examination of Franklin Fire Insurance Company, a single-state insurer. The previous examination was conducted as of December 31, 2013. This examination covered the five-year period from January 1, 2014 through December 31, 2018. Transactions occurring subsequent to this period were reviewed when deemed appropriate by the examiner.

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
- Financial statement presentation
- Loss review and analysis
- Summary of recommendations

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

Franklin Fire Insurance Company was organized in May 1881 for the purpose of transacting business as an assessment co-operative fire insurance company in the Town of Franklin, Delaware County, New York.

### 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 thirteen members. The board meets six times during each calendar year. At December 31, 2018, the board of directors was comprised of the following eleven members:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Burton Barnes Treadwell, NY	Treasurer, Franklin Fire Insurance Company
Thomas Barnes Treadwell, NY	Retired
Richard Blackman Walton, NY	Farmer
James Carey Oneonta, NY	Retired
Herman Herklotz Franklin, NY	President, Franklin Fire Insurance Company
Beverly Koopman Treadwell, NY	Farmer
Heather Ross Oneonta, NY	Farmer
Brian Sickler Franklin, NY	Owner, Sickler Memorials
Ruth Sickler Franklin, NY	Secretary, Franklin Fire Insurance Company
Donald Smith Franklin, NY	Farmer

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Richard Yarnes Walton, NY	Retired

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

<u>Name</u>	<u>Title</u>
Herman Herklotz	President
Ruth Sickler	Secretary
Burton Barnes	Treasurer
Thomas Barnes	Vice President

B. Territory and Plan of Operation

As of December 31, 2018, the Company was licensed as an assessment co-operative insurance company to transact business in the following counties of New York: Broome, Chenango, Delaware, Greene, Otsego, Schoharie and Sullivan.

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

Paragraph 5, 6, 7 and 8 can be written solely in conjunction with fire insurance and written under the same policy and covering the same premises. The Company is also licensed to accept and cede reinsurance as provided in Section 6606 of the New York Insurance Law. Because it is not licensed to write liability coverage, the Company shares some risks with Callicoon Cooperative Insurance Company ("Callicoon"), a larger assessment co-operative insurer. For the shared policies, the Company writes Section I only while Callicoon writes a percentage of the Section I coverage plus 100% of the Section II coverage.

Based upon 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>Total Direct Premiums</u>
2014	\$53,846
2015	\$52,774
2016	\$49,877
2017	\$49,604
2018	\$50,039

The Company writes fire and allied lines through its director-agents. Policies are issued for a term of three years covering farms, residential and commercial risks, including contents, livestock, produce and machinery. Policies are issued against specified perils that include fire and windstorm. Applications for insurance are reviewed by directors of the Company and all risks are inspected at least every three years, on or prior to the renewal dates of policies. The Company did not assume business during the examination period.

#### C. Reinsurance Ceded

The Company places reinsurance with reinsurers that hold an A.M. Best financial strength rating of A- of higher. The Company has structured its ceded reinsurance program as follows:

<u>Type of Coverage</u>	<u>Cession</u>
<u>Property Per Risk</u> Excess of Loss	\$75,000 excess of \$15,000 ultimate net loss, each loss, each risk. Limit of \$225,000 each loss occurrence.
<u>Windstorm Catastrophe</u> Excess of Loss	100% of the ultimate net loss over and above an ultimate net loss equal to 10% of the Company's policyholders' surplus. However, no claim shall be made hereunder unless the loss occurrence involves three or more risks.

The Company's ceded business was to authorized reinsurance. 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 the NAIC Accounting Practices and Procedures Manual, Statement of Statutory Accounting Principle (“SSAP”) No. 62R. Representations were supported by an attestation from the Company's Secretary and Treasurer 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 not a member of any holding company system. As of December 31, 2018, the Company was independent with no affiliations.

E. Significant Ratios

The Company’s two year overall operating ratio of 159%, computed as of December 31, 2018, falls outside the benchmark ranges set forth in the Insurance Regulatory Information System of the NAIC. The unusual value is due to a high expense ratio and a low return on investments.

<u>Operating Ratios</u>	<u>Result</u>
Net premiums written to policyholders’ surplus	2%
Adjusted liabilities to liquid assets	2%
Two-year overall operating	159%

Underwriting Ratios

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

	<u>Amount</u>	<u>Ratio</u>
Losses and loss adjustment expenses incurred	\$ 30,329	22.74%
Other underwriting expenses incurred	294,338	220.73%
Net underwriting gain (loss)	<u>(191,318)</u>	<u>(143.47)%</u>
Premiums earned	<u>\$133,349</u>	<u>100.00%</u>

### 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>	Assets Not <u>Admitted</u>	Net Admitted <u>Assets</u>
Bonds	\$1,160,414	\$0	\$1,160,414
Cash, cash equivalents and short-term investments	101,118	0	101,118
Investment income due and accrued	<u>100</u>	<u>0</u>	<u>100</u>
Total assets	<u>\$1,261,632</u>	<u>\$0</u>	<u>\$1,261,632</u>

##### Liabilities, Surplus and Other Funds

##### Liabilities

Losses and loss adjustment expenses	\$ 1,000
Taxes, licenses and fees (excluding federal and foreign income taxes)	120
Unearned premiums	<u>24,966</u>
Total liabilities	\$ 26,086

##### Surplus and Other Funds

Restricted policyholders' surplus	\$ 100,000
Unassigned funds (surplus)	<u>1,135,546</u>
Surplus as regards policyholders	<u>1,235,546</u>
Total liabilities, surplus and other funds	<u>\$1,261,632</u>

Note: The Internal Revenue Service has not audited tax returns covering tax years 2014 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

The net loss for the examination period as reported by the Company was \$49,238, as detailed below:

Underwriting Income

Premiums earned		\$133,349
Deductions:		
Losses and loss adjustment expenses incurred	\$ 30,329	
Other underwriting expenses incurred	<u>294,338</u>	
Total underwriting deductions		<u>324,667</u>
Net underwriting gain or (loss)		\$(191,318)

Investment Income

Net investment income earned	\$142,098	
Net realized capital gains (losses)	<u>    (18)</u>	
Net investment gain or (loss)		<u>142,080</u>
Net income before federal and foreign income taxes		\$(49,238)
Federal and foreign income taxes incurred		<u>    0</u>
Net income (loss)		<u>\$(49,238)</u>

C. Capital and Surplus

Surplus as regards policyholders decreased \$49,751 during the five-year examination period January 1, 2014 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, 2013			\$1,285,297
	<u>Gains in</u>	<u>Losses in</u>	
	<u>Surplus</u>	<u>Surplus</u>	
Net income		\$49,238	
Net unrealized capital gains or (losses)	\$0	<u>513</u>	
Total gains and losses	\$0	\$49,751	
Net increase (decrease) in surplus			<u>(49,751)</u>
Surplus as regards policyholders as reported by the Company as of December 31, 2018			<u>\$1,235,546</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 \$1,000 is the same as reported by the Company as of December 31, 2018.

## 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. It was recommended that the Company comply with NAIC annual statement instructions when completing its filed annual statements.	7
The Company has complied with this recommendation.	
ii. It was recommended that the Company use the trade date as the date of acquisition of securities pursuant to paragraph 4 of SSAP No. 26.	7
The Company has complied with this recommendation.	

## 6. SUMMARY OF COMMENTS AND RECOMMENDATIONS

This report on examination contains no comments or recommendations.

Respectfully submitted,

\_\_\_\_\_/S/\_\_\_\_\_  
Sheik H. Mohamed, CPA  
Associate Insurance Examiner

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

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

\_\_\_\_\_/S/\_\_\_\_\_  
Sheik H. Mohamed

Subscribed and sworn to before me  
this \_\_\_\_\_ day of \_\_\_\_\_, 2021.

APPOINTMENT NO. 31968

NEW YORK STATE

**DEPARTMENT OF FINANCIAL SERVICES**

I, Linda A. Lacewell, 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:

**Sheik Mohamed**

as a proper person to examine the affairs of the

**Franklin Fire 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 16th day of July, 2019

LINDA A. LACEWELL  
Superintendent of Financial Services



By:

*Joan P. Riddell*

Joan Riddell  
Deputy Bureau Chief