

REPORT ON EXAMINATION

OF

MILLVILLE INSURANCE COMPANY OF NEW YORK

AS OF

DECEMBER 31, 2014

DATE OF REPORT

SEPTEMBER 25, 2015

EXAMINER

MOHAMMED RAB

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NEW YORK STATE  
DEPARTMENT *of*  
FINANCIAL SERVICES

Andrew M. Cuomo  
Governor

Maria T. Vullo  
Superintendent

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May 22, 2018

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

Madam:

Pursuant to the requirements of the New York Insurance Law, and in compliance with the instructions contained in Appointment Number 31269 dated January 16, 2015, attached hereto, I have made an examination into the condition and affairs of Millville Insurance Company of New York as of December 31, 2014, and submit the following report thereon.

Wherever the designation “the Company” appears herein without qualification, it should be understood to indicate Millville Insurance Company of New York.

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 215 South State Street, Millville, PA 17846.

## 1. SCOPE OF EXAMINATION

The Department has participated in a coordinated group examination of the Company, a single-state insurer. The previous examination was conducted as of December 31, 2008. This examination covered the six-year period from January 1, 2009 through December 31, 2014. Transactions occurring subsequent to this period were reviewed where deemed appropriate by the examiner.

The examination was conducted in conjunction with the state of Pennsylvania, which was the coordinating state of the Millville Group. The examination was performed concurrently with the examinations of the following insurers: Millville Mutual Insurance Company and Anthracite Mutual Fire Insurance Company. The systems and practices of conducting business are integrated and all Companies operate under common management.

The state of domicile for each affiliate is as follows:

<u>Company</u>	<u>State</u>
Millville Insurance Company of New York	New York
Millville Mutual Insurance Company	Pennsylvania
Anthracite Mutual Fire Insurance Company	Pennsylvania

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. This examination also included a review and evaluation of the Company’s own control environment assessment. 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
- Corporate records
- Management and control
- Fidelity bonds and other insurance
- Territory and plan of operation
- Growth of Company
- Loss experience
- Reinsurance
- Accounts and records
- Financial statements
- Summary of recommendations

A review was also made to ascertain what actions were taken by the Company with regards 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 originally incorporated on October 17, 1995, as Adirondack Insurance Company by the Plymouth Rock Company of Boston, Massachusetts. On November 22, 1996, ownership of Adirondack Insurance Company was transferred to Direct Response Corporation (“DRC”). It was organized and granted a certificate of authority pursuant to the New York Insurance Law on May 9, 1997. On September 17, 1997, Adirondack Insurance Company changed its name to Response Indemnity Company. The Company began operations as a direct writer of private passenger automobile on October 15, 1997.

On February 13, 2009, Trinity Universal Insurance Company acquired DRC and its subsidiaries. Trinity Universal Insurance Company is a wholly-owned subsidiary of Unitrin, Inc., and, accordingly, Unitrin, Inc. became the ultimate controlling person of DRC and its subsidiaries, which included the Company.

On September 2, 2010, Millville Mutual Insurance Company (the “Parent”), a Pennsylvania domiciled mutual insurance company, acquired Response Indemnity Company through a Stock Purchase Agreement. On December 23, 2010 the Company received regulatory approval to change its name to Millville Insurance Company of New York. Response Indemnity Company was in run-off at the time of purchase.

On March 21, 2011, the Company received approval from the Department to perform a quasi-reorganization which generated a reduction of \$2,178,263 in gross paid in and contributed surplus and a corresponding increase to unassigned surplus of the same amount. Under this reorganization, the Company purchased 1,380 shares of its own outstanding stock for \$1,200,990. The par value of the remaining shares was increased from \$230 to \$337. As of December 31, 2014, capital paid in is \$1,000,890 consisting of 2,970 shares of \$337 par value per share common stock. Gross paid in and contributed surplus is \$1,554,550. Gross paid in and contributed surplus decreased by \$3,379,253 during the examination period, as follows:

<u>Year</u>	<u>Description</u>		<u>Amount</u>
2009	Beginning gross paid in and contributed surplus		\$ 4,933,803
2011	Repurchased and retirement of 1,380 shares of common stock	\$ (883,200)	
	Par value change in common stock	(317,790)	
	Effect of quasi-reorganization	<u>\$(2,178,263)</u>	
	Total reduction in gross paid-in and contributed surplus		<u>\$(3,379,253)</u>
2014	Ending gross paid-in and contributed surplus		<u>\$ 1,554,550</u>

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 members nor more than twelve members. At December 31, 2014, the board of directors was comprised of the following twelve members:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Robert D. Beyer Bloomsburg, PA	Certified Public Accountant, Self-Employed
William C. Berger Millville, PA	Project Manager, Larson Design Group
Lance O. Diehl Millville, PA	President, First Columbia Bank

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Robert W. Dillon Bloomsburg, PA	President/Owner, Dillon Floral Corporation
David W. Hartman Turbotville, PA	Agricultural Extension Agent, Penn State University
David B. Heffner Williamsport, PA	Consulting Information Officer, Lycoming College
Edwin F. Lease Catawissa, PA	Accountant, Self-Employed
John J. Petruzzi Olean, NY	Independent Insurance Agent, Petruzzi Insurance Agency, LLC
Patricia A. Porter Elysburg, PA	Certified Registered Nurse Practitioner, Geisinger Medical Center
Shaun T. Smith Williamsport, PA	President and Chief Executive Officer, Albright Care Services
Anne L. Steinbacher Muncy, PA	Real Estate Agent, Betty Steinbacher Real Estate (Century 21)
Matthew P. Raski Millville, PA	President, Millville Insurance Company of New York

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, 2014, the principal officers of the Company were as follows:

<u>Name</u>	<u>Title</u>
Robert D. Beyer	Chairman of the Board and Chief Executive Officer
Matthew P. Raski	President
Liesl R. Kreischer	Treasurer
Dennis J. Yonkin	Secretary

B. Territory and Plan of Operation

As of December 31, 2014, the Company was licensed to write business in New York only. As previously noted, the Company was in run-off status at the time of its purchase in 2010 and began writing business again in 2012.

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
13	Personal injury liability
14	Property damage liability
20	Marine and inland marine (inland only)

Based on the lines of business for which the Company is licensed, the Company's current capital structure and pursuant to the requirements of Articles 13 and 41 of the New York Insurance Law, the Company is required to maintain a minimum surplus to policyholders in the amount of \$1,600,000.

The Company's primary business is providing commercial multiple peril, homeowners multiple peril and fire insurance. The Company primarily markets its business through agency programs of its parent, Millville Mutual Insurance Company.

As previously noted, the Company writes in New York only. The following schedule shows the direct premiums written by the Company for the period under examination:

<u>Calendar Year</u>	<u>Total Premiums</u>
2009	\$ 0
2010	\$ 0
2011	\$ 0
2012	\$ 25,729
2013	\$169,817
2014	\$488,108



C. Reinsurance

The Company did not assume any business during the exam period. The ceded reinsurance program was designed as follows:

Quota Share Reinsurance Agreement

Effective April 19, 2012, the Company entered into a Quota Share Reinsurance Agreement with its parent, Millville Mutual Insurance Company. Pursuant to the agreement, the Company cedes 100% of the premium, losses, loss adjustment expenses, underwriting expenses and finance and service charges on all business written to its parent. The agreement was non-disapproved pursuant to Section 1505(d) of the New York Insurance Law.

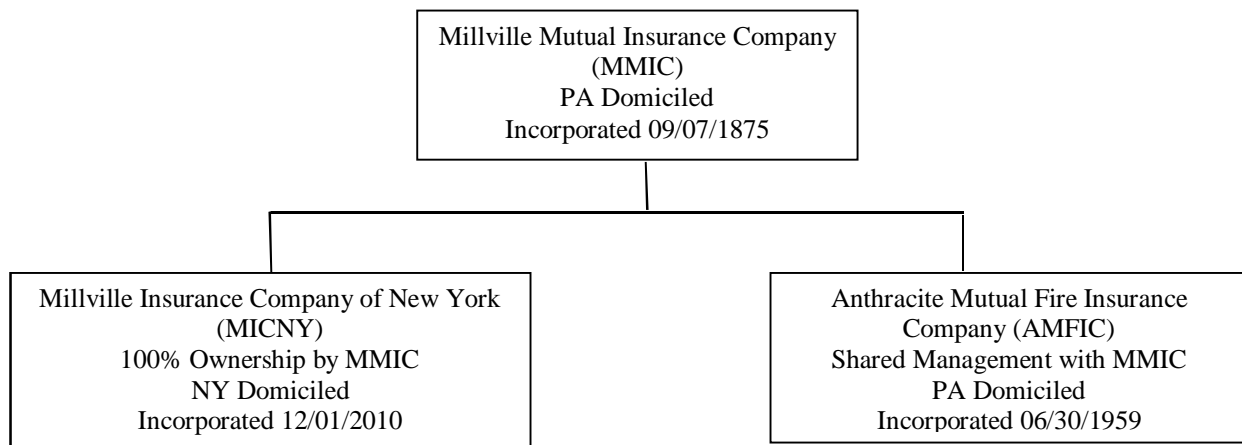
At December 31, 2014 the Company reported approximately \$411,000 in reinsurance recoverables from its parent, Millville Mutual Insurance Company. These reinsurance recoverables are the Company's most significant financial item and ultimately, the Company's most significant financial risk is its ability to collect on the reinsurance recoverables.

D. Holding Company System

The Company is a wholly-owned subsidiary of Millville Mutual Insurance Company, a Pennsylvania domiciled insurer.

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 Article 15 of the New York Insurance Law and Department Regulation 52.

The following is a chart of the holding company system at December 31, 2014:



At December 31, 2014, the Company was party to the following agreement with its parent:

Administrative Services and Property Agreement

Effective January 1, 2014, the Company entered into a service agreement with its parent, Millville Mutual Insurance Company (“Millville Mutual”). Pursuant to the agreement, Millville Mutual will provide the Company with all of the necessary administrative, production, marketing, underwriting, investment, and accounting functions with respect to its business operations. The agreement was non-disapproved pursuant to Section 1505(d) of the New York Insurance Law.

E. Significant Operating Ratios

The following ratios have been computed as of December 31, 2014, based upon the results of this examination:

Net premiums written to surplus as regards policyholders	0%
Liabilities to liquid assets (cash and invested assets less investments in affiliates)	3%
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.

No underwriting ratios were calculated because the Company cedes 100% of its written business to its parent, therefore these ratios are meaningless.

### 3. FINANCIAL STATEMENTS

#### A. Balance Sheet

The following shows the assets, liabilities and surplus as regards policyholders as of December 31, 2014 as reported by the Company:

<u>Assets</u>	<u>Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>
Bonds	\$2,347,326	\$ 0	\$2,347,326
Cash, cash equivalents and short-term investments	235,343		235,343
Investment income due and accrued	5,815		5,815
Uncollected premiums and agents' balances in the course of collection	24,771		24,771
Deferred premiums, agents' balances and installments booked but deferred and not yet due	65,123		65,123
Net deferred tax asset	<u>170,441</u>	<u>142,701</u>	<u>27,740</u>
Total assets	<u>\$2,848,819</u>	<u>\$142,701</u>	<u>\$2,706,118</u>

#### Liabilities, Surplus and Other Funds

##### Liabilities

Commissions payable, contingent commissions and other similar charges		\$ 26,749
Other expenses (excluding taxes, licenses and fees)		15,760
Taxes, licenses and fees (excluding federal and foreign income taxes)		6,883
Advance premium		7,949
Payable to parent, subsidiaries and affiliates		<u>75,233</u>
Total liabilities		\$ 132,574

##### Surplus and Other Funds

Common capital stock	\$1,000,890	
Gross paid in and contributed surplus	1,554,550	
Unassigned funds (surplus)	<u>18,104</u>	
Surplus as regards policyholders		<u>2,573,544</u>
Total liabilities, surplus and other funds		<u>\$2,706,118</u>

Note: The Internal Revenue Service has not audited tax returns covering tax years 2009 through 2014. 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 six- year examination period, January 1, 2009 through December 31, 2014, was \$32,344, detailed as follows:

Underwriting Income

Premiums earned		\$ 0
Deductions:		
Losses and loss adjustment expenses incurred	\$(47,199)	
Other underwriting expenses incurred	<u>189,049</u>	
Total underwriting deductions		<u>141,850</u>
Net underwriting gain or (loss)		\$(141,850)

Investment Income

Net investment income earned	\$142,441	
Net realized capital gain	<u>30,860</u>	
Net investment gain or (loss)		173,301

Other Income

Finance and service charges not included in premiums	\$ 694	
Aggregate write-ins for miscellaneous income	<u>199</u>	
Total other income		<u>893</u>
Net income		\$ <u>32,344</u>

C. Capital and Surplus Account

Surplus as regards policyholders decreased \$1,240,937 during the six-year examination period January 1, 2009 through December 31, 2014, detailed as follows:

Surplus as regards policyholders per report on examination as of December 31, 2008			\$ 3,814,481
	<u>Gains in</u>	<u>Losses in</u>	
	<u>Surplus</u>	<u>Surplus</u>	
Net income	\$ 32,344		
Change in net deferred income tax	6,120		
Change in non-admitted assets	542,298		
Cumulative effect of changes in accounting principles		\$ 666,854	
Stock redemption		1,200,600	
Deferred tax asset admitted	<u>45,755</u>	<u>0</u>	
Total gains and losses	<u>\$626,517</u>	<u>\$1,867,454</u>	
Net increase (decrease) in surplus			<u>\$(1,240,937)</u>
Surplus as regards policyholders per report on examination as of December 31, 2014			<u>\$ 2,573,544</u>

**4. LOSSES AND LOSS ADJUSTMENT EXPENSES**

The examination liability for the captioned items of \$0 is the same as reported by the Company as of December 31, 2014. This zero liability reflects the 100% quota share agreement with the Company's direct parent, Millville Mutual.

5. **COMPLIANCE WITH PRIOR REPORT ON EXAMINATION**

The recommendations cited in the prior examination report are not applicable to the current examination due to the change in control that occurred during the current examination period. Therefore, the prior examination recommendations have not been reflected in this report on examination.

6. **SUMMARY OF COMMENTS AND RECOMMENDATIONS**

This report contains no comments or recommendations.

Respectfully submitted,

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Mohammed Rab  
Senior Insurance Examiner

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

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

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Mohammed Rab

Subscribed and sworn to before me

this \_\_\_\_\_ day of \_\_\_\_\_, 2018.

**APPOINTMENT NO. 31269**

**NEW YORK STATE**

**DEPARTMENT OF FINANCIAL SERVICES**

I, **BENJAMIN M. LAWSKY**, 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:

**Mohammed Rab**

as a proper person to examine the affairs of the

**Milville Insurance Company of New York**

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 January, 2015

**BENJAMIN M. LAWSKY**  
Superintendent of Financial Services



By:

Rolf Kaumann  
Deputy Chief Examiner