

REPORT ON EXAMINATION

OF

A. CENTRAL INSURANCE COMPANY

AS OF

DECEMBER 31, 2015

DATE OF REPORT

MARCH 27, 2017

EXAMINER

SHEIK H. MOHAMED, CPCU

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NEW YORK STATE
DEPARTMENT *of*
FINANCIAL SERVICES

Andrew M. Cuomo
Governor

Maria T. Vullo
Superintendent

June 6, 2018

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

Madam:

Pursuant to the requirements of the New York Insurance Law, and in compliance with the instructions contained in Appointment Number 31486 dated November 15, 2016, attached hereto, I have made an examination into the condition and affairs of A. Central Insurance Company as of December 31, 2015, and submit the following report thereon.

Wherever the designation “the Company” or “ACIC” appears herein without qualification, it should be understood to indicate A. Central 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 1899 Central Plaza East, Edmeston, NY 13335.

1. SCOPE OF EXAMINATION

The Department has performed a single-state examination of A. Central Insurance Company. The previous examination was conducted as of December 31, 2010. This examination covered the five-year period from January 1, 2011 through December 31, 2015. Transactions occurring subsequent to this period were reviewed when deemed appropriate by the examiner.

This examination was performed in conjunction with the examination of New York Central Mutual Fire Insurance Company. 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 where deemed 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
- Territory and plan of operation
- Loss Experience
- Reinsurance
- Accounts and records
- Financial statements

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 incorporated under the laws of the State of New York on December 21, 2000 and became licensed on April 17, 2001. On January 24, 2001, NYCM Holdings, Inc. (“Holdings”), a wholly-owned subsidiary of New York Central Mutual Fire Insurance Company (“NYCMFIC”), was incorporated for the purpose of acting as an intermediate holding company to hold all of its issued and outstanding voting shares of the Company. On February 22, 2001, NYCMFIC acquired 100% of the 100 issued shares of Holdings for consideration of \$5,100,000. On February 23, 2001, Holdings acquired 100% of the 3,000 issued shares of \$1,000 par value common stock of the Company for consideration of \$5,050,000. The Company is ultimately controlled by NYCMFIC, a New York domiciled advance premium co-operative property and casualty insurance company.

As of December 31, 2015, paid in capital was \$3,000,000 consisting of 3,000 shares of common stock with a par value of \$1,000 per share. Gross paid in and contributed surplus was \$42,050,000 and has increased by \$25,000,000 during the examination period as follows:

<u>Year</u>	<u>Description</u>	<u>Amount</u>
2011	Beginning gross paid in and contributed surplus	\$17,050,000
2012	Surplus contribution	<u>25,000,000</u>
2015	Ending gross paid in and contributed surplus	<u>\$42,050,000</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 thirteen members. The board meets four times during each

calendar year. At December 31, 2015, the board of directors was only comprised of the following twelve members as one of the directors passed away unexpectedly on July 18, 2015:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Daryl Robert Forsythe Norwich, NY	Chairman, NBT Bancorp, Inc.
Edward Gozigian Cooperstown, NY	Attorney at Law, Gozigian, Washburn & Clinton
Jennifer R. Haack Painted Post, NY	Private Investor
Benjamin Clark Nesbitt West Oneonta, NY	Senior Vice President (retired), Wilber National Bank
Albert Pylinski, Jr. Edmeston, NY	Executive Vice President, Chief Financial Officer, Chief Risk Officer, Treasurer, A. Central Insurance Company; Executive Vice President, Chief Financial Officer, Chief Risk Officer, Treasurer, New York Central Mutual Fire Insurance Company; Treasurer, Albert F. Stager, Inc.; Executive Vice President and Treasurer, NYCM Holdings, Inc.
Robert Wesley Ranger West Winfield, NY	Chairman, USNY Bank; President, RWR Funding
VanNess Daniel Robinson Edmeston, NY	Chairman and Secretary, A. Central Insurance Company; Chairman and Secretary, New York Central Mutual Fire Insurance Company; Chairman and President, Albert F. Stager, Inc.; President, Robinson Agency Inc.; Chairman and Secretary, NYCM Holdings, Inc.

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
VanNess Daniel Robinson II Oneonta, NY	President and Chief Executive Officer, A. Central Insurance Company; President and Chief Executive Officer, New York Central Mutual Fire Insurance Company; Vice President, Albert F. Stager, Inc.; Secretary/Treasurer, Robinson Agency Inc.; President, NYCM Holdings, Inc.
Charles Raymond Schanz Cooperstown, NY	Owner and President, C.R. Schanz, Inc.
Harry William Smith, Jr. Norwich, NY	President (retired), Smith Norwich, Inc.
William Francis Streck, M.D. Cooperstown, NY	President and Chief Executive Officer (retired), Bassett Healthcare
Bruce Clayton Wratten Leonardsville, NY	Owner and Operator (retired), Horned Dorset, Ltd.

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, 2015, the principal officers of the Company were as follows:

<u>Name</u>	<u>Title</u>
VanNess Daniel Robinson II	President
VanNess Daniel Robinson	Secretary
Albert Pylinski, Jr.	Treasurer
Michael Anthony Perrino	First Senior Vice President
Cheryl Lynn Robinson	First Senior Vice President
John Eric Holdorf	Senior Vice President

B. Territory and Plan of Operation

As of December 31, 2015, the Company was licensed to write business in New York State only.

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
10	Elevator
11	Animal
12	Collision
13	Personal injury liability
14	Property damage liability
15	Workers' compensation and employers' liability
16	Fidelity and surety
19	Motor vehicle and aircraft physical damage
20	Marine and inland marine (inland marine only)

Based upon the lines of business for which the Company is licensed and the Company's current capital structure, 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 \$3,300,000.

The Company's predominant lines of business are non-standard private passenger auto liability and auto physical damage, which accounted for 66.83% and 33.17%, respectively, of the Company's 2015 direct written premiums.

The following schedule shows the direct premiums written by the Company for the period under examination:

<u>Calendar Year</u>	<u>Total Direct Written Premiums</u>
2011	\$58,218,624
2012	\$49,594,865
2013	\$35,792,464
2014	\$25,253,073
2015	\$20,223,872

As of December 31, 2015, the Company wrote insurance through approximately 1,179 independent agents. The Company's main office is located in Edmeston, New York and a branch office is located in Sherburne, New York.

Assumed Reinsurance

The Company did not assume any external reinsurance during the examination period. The only business assumed was under its participation in an inter-company reinsurance pooling agreement with its affiliate, New York Central Mutual Fire Insurance Company, which is described immediately below.

C. Ceded Reinsurance

Net Pooling Reinsurance Agreement

The Company entered into a net pooling reinsurance agreement ("Pooling Agreement") with New York Central Mutual Fire Insurance Company ("NYCMFIC") effective July 1, 2001. The Pooling Agreement and all subsequent amendments were submitted to the Department. As of the examination date, the participation percentage in the net combined pooled business between the Company and NYCFMIC was 10% and 90% respectively. These pooled participation percentages changed over the years since the inception of this agreement in 2001.

All lines of business that both companies are authorized to write are included in the Pooling Agreement and are ceded 100% to NYCMFIC, after all non-affiliated ceded reinsurance has been recorded. In addition, this Pooling Agreement allows the pooling of certain assets, liabilities,

income, and expense items as listed within the agreement. NYCMFIC cedes business to non-affiliated reinsurers prior to pooling between the companies.

Ceded Reinsurance Program

The Company had the following ceded reinsurance contract in effect at December 31, 2015:

<u>Type of Treaty</u>	<u>Cession</u>
Casualty – Excess of Loss (2 layers) 100% authorized	\$4,500,000 excess of \$500,000 each occurrence; limit of \$6,000,000 on the second excess cover for losses in excess of the policy limits and extra contractual obligations combined arising out of all occurrences taking place during each agreement year.

During the examination period, the Company's net retention for casualty business increased from \$175,000 to \$500,000.

The above ceded reinsurance agreement was reviewed and found to contain the required clauses, including an insolvency clause, meeting the requirements of Section 1308 of the New York Insurance Law.

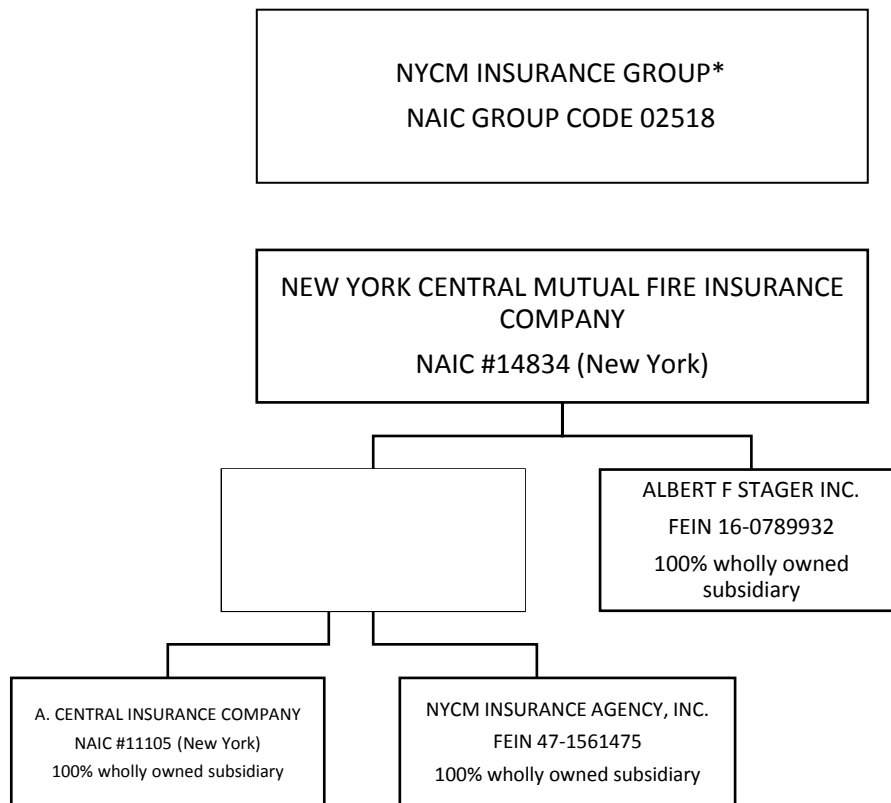
Examination review found that the Schedule F data reported by the Company in its filed annual statement accurately reflected its reinsurance transactions. Additionally, management has represented that all material ceded reinsurance agreements transfer both underwriting and timing risk as set forth in SSAP No. 62R. Representations were supported by appropriate risk transfer analyses and an attestation from the Company's President 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. Affiliated Group

The Company is a wholly-owned subsidiary of NYCM Holdings, Inc., which in turn is wholly-owned by New York Central Mutual Fire Insurance Company, a New York domiciled advance premium co-operative property and casualty insurance company.

Since the ultimate controlling party of the affiliated group is an authorized insurer, it is exempt from the requirements of Article 15 of the New York Insurance Law and Department Regulation 52. However, it is subject to the requirements of Article 16 of the New York Insurance Law and Department Regulation 53. A review of the annual filings made by NYCMFIC pursuant to Department Regulation 53 during the examination period indicated that such filings were complete and were filed in a timely manner.

The following is a chart of the affiliated group as of December 31, 2015:



* NYCM Insurance Group was formed for combined statement filing purposes only

As of December 31, 2015, the Company was party to the following agreements with other members of its affiliated group:

Net Pooling Reinsurance Agreement

Refer to Section 2C of this report for the details of the net pooling reinsurance agreement between the Company and New York Central Mutual Fire Insurance Company.

Cost Allocation Agreement

The Company entered into a cost allocation agreement, effective July 1, 2001, with NYCM Holdings Inc. (“Holdings”). Pursuant to the agreement, Holdings provides and makes available to the Company, at cost, the services of its personnel, office space, the use of office equipment and data processing services. Expenses incurred by Holdings for services, equipment or facilities that benefit the Company are to be allocated pursuant to Department Regulation 30 using actual usage or weighted time methods as a base of allocation. Amounts due under the agreement are determined at the end of each month by Holdings on an estimated basis and if necessary, there shall be a quarterly adjustment of such amounts. Pursuant to the agreement, the Company shall pay all charges due under this agreement to Holdings within fifteen days following receipt of each billing. Based on a review of this agreement, it appears that no billing is being generated and settlements are not made within 15 days following receipt of each billing as called for in the "payment article" of the agreement. It is therefore recommended that the Company implement procedures to comply fully with all of the provisions of its inter-company agreements and that settlements be made in a timely manner.

Agency Agreement between the Company and New York Central Mutual Fire Insurance Company and NYCM Insurance Agency, Inc.

Effective February 2, 2015, the Company and New York Central Mutual Fire Insurance Company entered into an agency agreement with NYCM Insurance Agency, Inc. of Edmeston, New York. Pursuant to the agreement, NYCM Insurance Agency, Inc. may solicit, receive and accept proposals for insurance, and to bind, issue and deliver policies of insurance, covering such classes of risks as the Company may, from time to time, authorize to be insured; cancel such policies of insurance when directed by the Company to do so; and collect, receive and receipt for

premiums on such policies of insurance. The agents are considered independent contractors and not employees of the Company. The agents agree to forward to the Company within five business days and without deduction or offset, all premiums collected.

E. Significant Ratios

The following ratios have been computed as of December 31, 2015, based upon the results of this examination:

Net premiums written to policyholders' surplus	121%
Adjusted liabilities to liquid assets	64%
Gross agents' balances to policyholders' surplus	10%

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.

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

	<u>Amounts</u>	<u>Ratios</u>
Losses and loss adjustment expenses incurred	\$169,375,519	72.84%
Other underwriting expenses incurred	77,069,876	33.14
Net underwriting gain (loss)	<u>(13,911,327)</u>	<u>(5.98)</u>
Premiums earned	<u>\$232,534,068</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, 2015 as reported by the Company:

<u>Assets</u>	<u>Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>
Bonds	\$ 77,564,432		\$ 77,564,432
Common stocks (stocks)	2,323,837		2,323,837
Cash, cash equivalents and short-term Investments	2,128,382		2,128,382
Investment income due and accrued	616,759		616,759
Uncollected premiums and agents' balances in the course of collection	3,797,528	\$ 34,870	3,762,658
Deferred premiums, agents' balances and installments booked but deferred and not yet due	11,438,916		11,438,916
Amounts recoverable from reinsurers	1,311,591		1,311,591
Current federal and foreign income tax recoverable and interest thereon	13,430		13,430
Net deferred tax asset	3,301,415	1,355,475	1,945,940
Cash surrender value (split life)	1,656,566		1,656,566
Equities and deposits in pools and Associations	12,685		12,685
Accounts receivable - other	<u>218,202</u>	<u>168,353</u>	<u>49,849</u>
Total assets	<u>\$104,383,743</u>	<u>\$1,558,698</u>	<u>\$102,825,045</u>

Liabilities, Surplus and Other FundsLiabilities

Losses and loss adjustment expenses	\$ 29,033,403
Reinsurance payable on paid losses and loss adjustment Expenses	2,049,674
Commissions payable, contingent commissions and other similar charges	1,459,800
Other expenses (excluding taxes, licenses and fees)	570,366
Unearned premiums	24,058,323
Advance premium	465,484
Ceded reinsurance premiums payable (net of ceding commissions)	1,429,564
Amounts withheld or retained by company for account of Others	2,886,507
Payable to parent, subsidiaries and affiliates	1,527,565
Liability for pension transition	401,721
Liability for postretirement transition	<u>173,206</u>
Total liabilities	\$ 64,055,613

Surplus and Other Funds

Common capital stock	\$ 3,000,000
Gross paid in and contributed surplus	42,050,000
Unassigned funds (surplus)	<u>(6,280,568)</u>
Surplus as regards policyholders	<u>38,769,432</u>
Total liabilities, surplus and other funds	\$ <u>102,825,045</u>

Note: The Internal Revenue Service has completed its audits of the Company's Federal Income Tax returns through tax year 2005. All material adjustments, if any, made subsequent to the date of examination and arising from said audits, are reflected in the financial statements included in this report. The Internal Revenue Service has not notified the Company of any audits covering tax years 2009 through 2016. 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 five-year examination period as reported by the Company was \$1,339,664, detailed as follows:

Underwriting Income

Premiums earned		\$ 232,534,068
Deductions:		
Losses and loss adjustment expenses incurred	\$169,375,519	
Other underwriting expenses incurred	<u>77,069,876</u>	
Total underwriting deductions		<u>246,445,395</u>
Net underwriting gain or (loss)		\$(13,911,327)

Investment Income

Net investment income earned	\$ 8,427,640	
Net realized capital gain	<u>912,724</u>	
Net investment gain or (loss)		9,340,364

Other Income

Net gain or (loss) from agents' or premium balances charged off	\$ (238,324)	
Finance and service charges not included in premiums	3,897,469	
Miscellaneous income (loss)	<u>(694,967)</u>	
Total other income		<u>2,964,178</u>
Net income before federal and foreign income taxes		\$ (1,606,785)
Federal and foreign income taxes incurred		<u>(267,121)</u>
Net income/(loss)		\$ <u>(1,339,664)</u>

C. Capital and Surplus Account

Surplus as regards policyholders increased \$23,851,911 as reported by the Company during the five-year examination period January 1, 2011 through December 31, 2015, detailed as follows:

Surplus as regards policyholders as reported by the Company as of December 31, 2010			\$14,917,521
	<u>Gains in Surplus</u>	<u>Losses in Surplus</u>	
Net loss		\$1,339,664	
Net unrealized capital gains or losses	\$ 112,661		
Change in net deferred income tax	3,359,455		
Change in non-admitted assets		1,544,585	
Surplus adjustments paid in	25,000,000		
Miscellaneous gain (loss)		269,448	
Liability for pension, pension transition and post retirement transition	<u>0</u>	<u>1,466,508</u>	
Total gains and losses	<u>\$28,472,116</u>	<u>\$4,620,205</u>	
Net increase (decrease) in surplus			23,851,911
Surplus as regards policyholders as reported by the Company as of December 31, 2015			<u>\$38,769,432</u>

4. LOSSES AND LOSS ADJUSTMENT EXPENSES

The examination liability for the captioned items of \$29,033,403 is the same as reported by the Company as of December 31, 2015. 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 the NAIC Accounting Practices & Procedures Manual, Statement of Statutory Accounting Principle No. 55 ("SSAP No. 55").

5. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

The prior report on examination contained three recommendations as follows (page numbers refer to the prior report):

<u>ITEM</u>	<u>PAGE NO.</u>
A. <u>Reinsurance</u>	
It is recommended that the Company include an insolvency clause in future reinsurance contracts that complies with Section 1308 of the New York Insurance Law.	8
The Company has complied with this recommendation.	
B. <u>Accounts and Records</u>	
i. <u>Custodial Agreements</u>	
It is recommended that the Company maintain custodial agreements that contain all of the safeguards and controls required by the Department and the NAIC Financial Condition Examiners Handbook.	11
The Company has complied with this recommendation.	
ii. <u>Written Contract with Independent Certified Public Accountants</u>	
It is recommended that the Company institute internal review procedures to ensure that all future contracts entered into with its independent auditors are in full compliance with Department Regulation 118. It is noted that a similar recommendation was included in the previous report on examination.	12
The Company has complied with this recommendation.	

6. SUMMARY OF COMMENTS AND RECOMMENDATIONSITEMPAGE NO.A. Affiliated Group

It is recommended that the Company implement procedures to comply fully with all of the provisions of its inter-company agreements and that settlements be made in a timely manner.

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Respectfully submitted,

Sheik H. Mohamed, CPCU
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.

Sheik H. Mohamed

Subscribed and sworn to before me

this _____ day of _____, 2018.

APPOINTMENT NO. 31486

NEW YORK STATE

DEPARTMENT OF FINANCIAL SERVICES

I, Maria T. Vullo, 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

A Central 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 15th day of November, 2016

MARIA T. VULLO
Superintendent of Financial Services



By:

Joan P. Riddell

Joan Riddell
Deputy Bureau Chief