

REPORT ON EXAMINATION

OF

WALTON CO-OPERATIVE FIRE INSURANCE COMPANY

AS OF

DECEMBER 31, 2018

DATE OF REPORT

NOVEMBER 22, 2019

EXAMINER

LAMIN JAMMEH

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Department of Financial Services

KATHY HOCHUL
Governor

ADRIENNE A. HARRIS
Acting Superintendent

September 30, 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 31988 dated July 23, 2019, attached hereto, I have made an examination into the condition and affairs of Walton Co-operative 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 Walton Co-operative 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’s office located at One State Street, New York, NY 10004.

1. SCOPE OF EXAMINATION

The Department has performed a limited scope examination of Walton Co-operative Fire Insurance Company, a single-state insurer. The previous examination was conducted as of December 31, 2010. This examination covered the eight-year period from January 1, 2011 through December 31, 2018. The scope of the examination was limited to these balance sheet items considered by this Department to require analysis, verification or description, including: invested assets, loss reserves, and unearned premiums.

Transactions occurring subsequent to this period were reviewed where deemed appropriate by the examiner.

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 the target areas investigated pursuant to the limited scope examination instructions, 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

Walton Co-operative Fire Insurance Company was organized on October 20, 1888, for the purpose of transacting business as an assessment cooperative fire insurance company in the Town of Walton, Delaware County, New York.

The current license, issued December 12, 1986, with an effective date of January 1, 1987, authorizes the Company to transact business within the entire County of Delaware, in this state.

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 11 nor more than 15 members. The board meets 12 times during each calendar year. At December 31, 2018, the board of directors was comprised of the following 12 members:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Joseph Augustine Walton, NY	Retired
James Curtin Walton, NY	Owner/Operator, Curtin Trucking
Nancy Endress Walton, NY	Food Service Manager, Delhi Campus Child Care Center
Brenda Gladstone East Meredith, NY	Secretary/Treasurer, Walton Co-operative Fire Insurance Company
Bruce Henderson Walton, NY	Retired Teacher
Eleanor MacGibbon Walton, NY	Retired
Georgiana McCall Walton, NY	Retired
Allan Reynolds Walton, NY	Retired
Selinda Taggart Walton, NY	Dental Hygienist, William Korwan, DDS
Tammie Tweedie Walton, NY	Financial Analyst, Kraft Foods
Niles Wilson Walton, NY	Self-employed Logger President, Walton Co-operative Fire Insurance Company
Wendy Worden Trout Creek, NY	Bank Teller, Wayne Bank

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

<u>Name</u>	<u>Title</u>
Niles Wilson	President
Brenda Gladstone	Secretary/Treasurer
Eleanor MacGibbon	Assistant Secretary/Treasurer
Bruce Henderson	Vice President

B. Territory and Plan of Operation

As of December 31, 2018, the Company was licensed to write business in New York 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

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 Company did not assume any business during the period under examination. The following schedule shows the direct premiums written by the Company for the period under examination:

<u>Calendar Year</u>	<u>Direct Written Premiums</u>
2011	\$79,594
2012	\$78,398
2013	\$79,156
2014	\$78,414
2015	\$77,507
2016	\$75,670
2017	\$76,404
2018	\$75,831

The Company's insurance business is generated by five of the Company's directors (three licensed property/casualty agents and two licensed limited agents). Policies are issued for a term of three years.

C. Reinsurance Ceded

The Company has structured its ceded reinsurance program as follows:

<u>Type of Coverage</u>	<u>Cession</u>
<u>Property per risk excess of loss</u>	\$70,000 excess of \$14,000 each loss, each risk. Subject to a limit of liability to the reinsurer of \$210,000 each loss occurrence.
<u>Windstorm catastrophe excess of loss</u>	100% of the ultimate net loss over and above an initial ultimate net loss equal 10% of the Company's policyholder's surplus each loss occurrence. (No claim can be made unless loss occurrence involves three or more risks).

All ceded business was to authorized reinsurers.

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 President and Secretary 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 a holding company system.

E. Significant Ratios

The Company's operating ratios (except the two-year overall operating ratio), 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	7.00%
Adjusted liabilities to liquid assets	5.14%
Two-year overall operating	178.00%

The two-year operating ratio is outside the benchmark of below 100%, indicating an operating loss. Analysis of this ratio indicates a relative high expense ratio to net premiums written. The Company has reported a high expense ratio during the last five years due to increases in other underwriting expenses relative to stagnant premium income.

Underwriting Ratios

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

	<u>Amount</u>	<u>Ratio</u>
Losses and loss adjustment expenses incurred	\$175,274	36.67%
Other underwriting expenses incurred	512,846	107.31%
Net underwriting gain (loss)	<u>(210,199)</u>	<u>(43.98)%</u>
Premiums earned	<u>\$477,921</u>	<u>100.00%</u>

The Company has been experiencing high underwriting deductions which include incurred losses and other underwriting expenses relative to diminishing premium base.

The Company is exempt from risk-based capital requirements.

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>Nonadmitted</u> <u>Assets</u>	<u>Net admitted</u> <u>Assets</u>
Bonds	\$577,698	\$ 0	\$577,698
Common stocks (stocks)	186,825	0	186,825
Cash, cash equivalents and short-term Investments	16,798	0	16,798
Electronic data processing equipment and Software	<u>635</u>	<u>635</u>	<u>0</u>
Total assets	<u>\$781,956</u>	<u>\$635</u>	<u>\$781,321</u>

Liabilities, Surplus and Other Funds

Liabilities

Losses and Loss Adjustment Expenses	\$ 5,000
Unearned premiums	39,803
Advance premium	<u>4</u>
Total liabilities	\$44,807

Surplus and Other Funds

Aggregate write-ins for other than special surplus funds	\$100,000
Unassigned funds (surplus)	<u>636,514</u>
Surplus as regards policyholders	<u>\$736,514</u>
Total liabilities, surplus and other funds	<u>\$781,321</u>

Note: The Internal Revenue Service has not audited the Company's federal income tax returns during the period under examination. 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 \$82,054, as detailed below:

Underwriting Income

Premiums earned		\$477,921
Deductions:		
Losses and loss adjustment expenses incurred	\$175,274	
Other underwriting expenses incurred	<u>512,846</u>	
Total underwriting deductions		<u>688,120</u>
Net underwriting gain or (loss)		\$(210,199)

Investment Income

Net investment income earned	\$126,342	
Net realized capital gain	<u>1,054</u>	
Net investment gain or (loss)		127,396

Other Income

Aggregate write-ins for miscellaneous income	\$ <u>749</u>	
Total other income		<u>749</u>
Net income (loss)		\$ <u>(82,054)</u>

C. Capital and Surplus

Surplus as regards policyholders decreased \$90,962 during the eight-year examination period January 1, 2011 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, 2010			\$827,476
	<u>Gains in Surplus</u>	<u>Losses in Surplus</u>	
Net loss		\$82,054	
Net unrealized capital gains or (losses)		9,662	
Change in nonadmitted assets	\$859		
Aggregate write-ins for gains and losses in surplus	<u>0</u>	<u>105</u>	
Total gains and losses in surplus	\$859	\$91,821	
Net increase (decrease) in surplus			<u>(90,962)</u>
Surplus as regards policyholders as reported by the Company as of December 31, 2018			<u>\$736,514</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 \$5,000 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 SSAP No. 26, Paragraph 4.	6
The Company has complied with this recommendation.	
ii. It was recommended that the Company exercise greater care in the preparation of Schedule P.	6
The Company has complied with this recommendation.	

6. SUMMARY OF COMMENTS AND RECOMMENDATIONS

This report on examination contains no recommendations.

Respectfully submitted,

_____/S/_____
Lamin Jammeh
Senior Insurance Examiner

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

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

_____/S/_____
Lamin Jammeh

Subscribed and sworn to before me

this _____ day of _____, 2021.

APPOINTMENT NO. 31988

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:

Lamin Jammeh

as a proper person to examine the affairs of the

Walton Co-operative 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 23rd day of July, 2019

LINDA A. LACEWELL
Superintendent of Financial Services



By:

Joan P. Riddell

Joan Riddell
Deputy Bureau Chief