

REPORT ON EXAMINATION

OF THE

NEW YORK CENTRAL MUTUAL FIRE INSURANCE COMPANY

AS OF

DECEMBER 31, 2010

DATE OF REPORT

SEPTEMBER 16, 2011

EXAMINER

WAYNE LONGMORE

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NEW YORK STATE  
DEPARTMENT *of*  
FINANCIAL SERVICES

Andrew M. Cuomo  
Governor

Benjamin M. Lawsky  
Superintendent

September 16, 2011

Honorable Benjamin M. Lawsky  
Superintendent of Financial Services  
Albany, New York 12257

Sir:

Pursuant to the requirements of the New York Insurance Law, and in compliance with the instructions contained in Appointment Number 30625 dated January 4, 2011, attached hereto, I have made an examination into the condition and affairs of New York Central Mutual Fire Insurance Company as of December 31, 2010, and submit the following report thereon.

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

Wherever the term “the Department” appears herein without qualification, it should be understood to mean the New York 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 New York Central Mutual Fire Insurance Company. The previous examination was conducted as of December 31, 2006. This examination covered the four-year period from January 1, 2007 through December 31, 2010. Transactions occurring subsequent to this period were reviewed where deemed appropriate by the examiner.

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 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**

New York Central Mutual Fire Insurance Company was organized under the laws of the State of New York on April 11, 1899 for the purpose of transacting business as a co-operative fire insurance corporation in Otsego County, New York. The Company currently operates as an advance premium cooperative property/casualty corporation under the provisions of Article 66 of the New York Insurance Law. All policies issued by the Company are non-assessable.

In 2000, NYCM Insurance Group (formerly known as Central Services Group) was formed as a group holding company for the purpose of facilitating the formation of A. Central Insurance Company (“ACIC”), a stock property and casualty insurance company, to write non-standard automobile insurance. ACIC was incorporated on December 21, 2000. NYCM Insurance Group was formed for combined statement filing purposes only.

On January 24, 2001, NYCM Holdings, Inc. (“Holdings”) was incorporated for the purpose of acting as an intermediate holding company to hold all of the issued and outstanding common stock of ACIC. On February 22, 2001, the Company acquired 100 shares of Holdings for consideration of \$5,100,000. On February 23, 2001, Holdings acquired 3,000 shares of ACIC for consideration of \$5,050,000. On June 10, 2002, the Company contributed an additional \$5 million to Holdings, who in turn contributed the \$5 million to ACIC. The Company made two additional contributions of \$5 million each to Holdings on April 14, 2008 and October 4, 2010, and Holdings in turn contributed those amounts to ACIC.

### 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 eleven or more than fifteen members. The board of directors and the executive committee meets at least four times during each calendar year, thereby

complying with Section 6624(b). At December 31, 2010, the board of directors was comprised of the following thirteen members:

<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 & Senior Trust Officer, Wilber National Bank
Albert Pylinski, Jr. Edmeston, NY	Executive Vice President, Chief Financial Officer, Chief Risk Officer, Treasurer, ACIC 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	Private Investment Banker
VanNess Daniel Robinson Edmeston, NY	Chairman and Secretary, ACIC Chairman and Secretary, New York Central Mutual Fire Insurance Company Chairman and President, Albert F. Stager, Inc. Owner, Robinson Agency Inc. Chairman and Secretary, NYCM Holdings, Inc.
VanNess Daniel Robinson II Oneonta, NY	President and Chief Executive Officer, ACIC President and Chief Executive Officer, New York Central Mutual Fire Insurance Company Vice President, Albert F. Stager, Inc.

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
	Agent, 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, Bassett Healthcare
Howard Chase Talbot, Jr. Cooperstown, NY	Director and Treasurer (Retired), National Baseball Hall of Fame
Bruce Clayton Wratten Leonardsville, NY	Owner and Operator, 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 has an acceptable record of attendance.

As of December 31, 2010, the principal officers of the Company were as follows:

<u>Name</u>	<u>Title</u>
VanNess Daniel Robinson	Chairman and Secretary
VanNess Daniel Robinson II	President and Chief Executive Officer
Albert Pylinski, Jr.	Executive Vice President, Chief Financial Officer, Chief Risk Officer and Treasurer
Jeffrey R. Barrett	Senior Vice President
Katharine S. Bell	Senior Vice President
Stephen M. Cembrinski	Senior Vice President
Michele D. Couperthwait	Senior Vice President
Douglas H. Franklin	Senior Vice President
John E. Holdorf	Senior Vice President
Michael J. LaCava	Senior Vice President
Peter L. Owens	Senior Vice President
Timothy A. Trueworthy	Senior Vice President

B. Territory and Plan of Operation

As of December 31, 2010, 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
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 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 \$1,450,000.

At December 31, 2010, the Company wrote business through about 1,100 independent agents. The Company maintained three branch offices: Sherburne, New York; Amsterdam, New York; and Orchard Park, New York.

The Company's predominant lines of business are homeowners multiple peril, private passenger auto liability and auto physical damage, which accounted for 38.19%, 35.96% and 19.15%, respectively, of the Company's 2010 direct written business.

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

<u>Calendar Year</u>	<u>Premiums Written</u>
2007	\$427,184,635
2008	\$415,127,227
2009	\$414,676,539
2010	\$424,096,874

C. Reinsurance

Assumed

The Company's assumed reinsurance program consists mainly of its participation in an inter-company reinsurance pooling agreement with A. Central Insurance Company. Assumed reinsurance accounted for 12.92% of the Company's gross premium written at December 31, 2010.

Effective October 5, 1993, the Company entered into an assumed retroactive reinsurance agreement with Home Mutual Insurance Company of Binghamton, New York ("HMI"). The Company assumed 100% of HMI's claims and loss adjustment expense obligations with respect to losses incurred on or prior to September 30, 1993, under policies, contracts, binders and riders issued by HMI on or prior to such date.

The Company entered into a net pooling reinsurance agreement ("Pooling Agreement") with A. Central Insurance Company effective July 1, 2001. The Pooling Agreement and all subsequent amendments were submitted to the Department. The respective participation in the net combined pooled business for 2001 was: ACIC, 5% and the Company, 95%. Subsequent changes to the pooling percentages were as follows:

- Effective January 1, 2002, the pool participation percentages were changed to ACIC, 2% and the Company, 98%.
- Effective January 1, 2008, the pool participation percentages were changed to ACIC, 4% and the Company, 96%.
- Effective December 31, 2010, the pool participation percentages were changed to ACIC, 10% and the Company, 90%.

All lines of business that both companies are authorized to write are included in the Pooling Agreement and are ceded 100% to the Company, 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. The Company cedes business to non-affiliated reinsurance companies prior to pooling between the companies.

### Ceded

The Company has structured its ceded reinsurance program as follows:

<u>Type of Treaty</u>	<u>Cession</u>
<u>Personal Umbrella – Quota Share</u>	50% of the first \$1,000,000 each occurrence; 100% of \$4,000,000 excess of \$1,000,000 each occurrence.
<u>Property Excess of Loss</u> (3 layers)	\$4,500,000 in excess of \$500,000 each risk; limit of \$1,875,000 (1 <sup>st</sup> layer), \$2,400,000 (2 <sup>nd</sup> layer), and \$3,300,000 (3 <sup>rd</sup> layer), any one occurrence; and limit of \$4,400,000 (2 <sup>nd</sup> layer) and \$6,600,000 (3 <sup>rd</sup> layer), any one agreement year.
<u>Casualty Excess of Loss</u> (2 layers)	\$4,500,000 in excess of \$500,000 each occurrence; limit of \$6,000,000 (2 <sup>nd</sup> layer) for losses in excess of the policy limits and extra contractual obligations combined arising out of all occurrences taking place during each agreement year.
<u>Property Catastrophe</u> (4 layers)	\$238,000,000 in excess of \$12,000,000 each and every loss occurrence.

As of the examination date, the Company also had a property facultative facility available on an offer and acceptance basis.

All significant ceded reinsurance agreements in effect as of the examination date were reviewed for the required clauses.

It was noted that the insolvency clause included in the casualty excess of loss reinsurance agreement, property per risk excess of loss reinsurance agreement and the quota share and excess of loss personal umbrella agreement, contained language that deviated from Section 1308(a)(2)(A) of the New York Insurance Law. The insolvency clause in the affected contracts, states in part:

“. . . without diminution by reason of the inability of the Company to pay all or part of the claim, except as otherwise specified in the statutes of any state having jurisdiction of the insolvency proceedings . . .”

Company management was informed that the wording above appears to allow an exception by other states to the diminution language required by New York State and as such does not appear consistent with the requirements of Section 1308 of the New York Insurance Law. An endorsement to the affected contracts was executed during the course of the examination in order to more fully comply with the requirements of Section 1308 of the New York Insurance Law.

Nonetheless, 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.

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, with such representation supported by an attestation from the Company's chief executive and chief financial officers pursuant to the NAIC’s Annual Statement Instructions. Additionally, the examination review indicated that the Company was not a party to any finite reinsurance agreements.

Examination review of the Schedule F data reported by the Company in its filed annual statement found it to accurately reflect its reinsurance transactions in all material respects.

#### D. Affiliated Group

The Company is a member of the NYCM Insurance Group and is the ultimate controlling person of the Group. The Company is not owned by NYCM Insurance Group as it is an advance premium cooperative company, and is therefore owned by its members. The Company and A. Central Insurance Company formed the NYCM Insurance Group for combined statement filing purposes only.

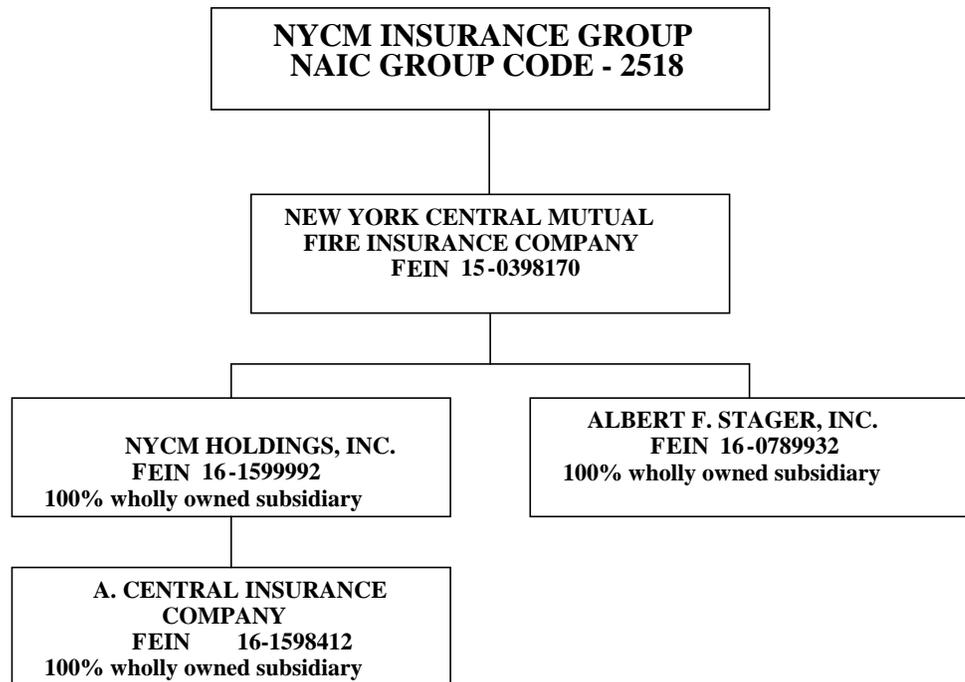
The Company owns 100% of the common stock of NYCM Holdings, Inc., an insurance holding company, which in turn owns 100% of the common stock of A. Central Insurance Company.

The Company also owns 100% of the common stock of Albert F. Stager, Inc. (“Stager”), an insurance adjusting firm. Stager provides claims adjusting services primarily in Western New York

to property and casualty insurance companies. The majority of Stager's income is derived from providing services to the Company.

Since the ultimate controlling party of the affiliated group is the Company, 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 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 at December 31, 2010:



At December 31, 2010, 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 a description of the Net Pooling Reinsurance Agreement between the Company and A. Central Insurance Company.

Cost Allocation Agreement Between the Company and NYCM Holdings, Inc.

The Company entered into a cost allocation agreement, effective July 1, 2001, with NYCM Holdings, Inc. Pursuant to the agreement, the Company makes available to Holdings, at cost, the services of its personnel and also office space, the use of office equipment, and data processing services. Shared expenses are to be allocated pursuant to Department Regulation 30 using actual usage or the weighted time method as the basis of allocation.

Amounts due under the agreement shall be determined at the end of each month by the Company on an estimated basis and, if necessary, there shall be a quarterly adjustment of such amounts. Holdings shall pay all charges due under this agreement to the Company within fifteen days following the receipt of each billing.

Agreements Between the Company (Including Its Insurance Affiliates) and A. F. Stager, Inc. ("Stager")

Effective January 1, 2002, the Company entered into five separate agreements with Stager, whereby Stager provides the Company with claims processing services, Special Investigation Unit services, underwriting inspections and the operation of the Company's 24-hour customer service center. The Company also shares office space in Amsterdam, New York, pursuant to a rental agreement with Stager. All of the agreements provide for monthly settlements.

Cost Allocation Agreement Between the Company and Robinson Agency, Inc.

This agreement was entered into on November 1, 2002, between the Company and Robinson Agency Inc. of Edmeston, New York, an independent insurance agency operating from the offices of the Company in Edmeston. Pursuant to the agreement, all expenses for services, equipment or facilities of the Company for the benefit of Robinson Agency Inc. shall be determined and allocated pursuant to New York Insurance Department Regulation 30. Personnel, office space, fixed assets and general expenses shall be reimbursed by Robinson Agency Inc. to the Company according to the weighted time method. Other shared expenses shall be reimbursed based on actual usage.

The amounts due under the agreement shall be determined at the end of each quarter by the Company on an estimated basis and, if necessary, there shall be an annual adjustment of such amounts. Payment of all charges under this agreement is due to the Company within fifteen days following receipt of each billing.

E. Significant Operating Ratios

The following ratios have been computed as of December 31, 2010, based upon the results of this examination:

Net premiums written to surplus as regards policyholders	1.01:1
Liabilities to liquid assets (cash and invested assets less investments in affiliates)	57%
Premiums in course of collection to surplus as regards policyholders	2%

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 four-year period covered by this examination:

	<u>Amounts</u>	<u>Ratios</u>
Losses and loss adjustment expenses incurred	\$1,151,787,888	68.14%
Other underwriting expenses incurred	534,083,457	31.60
Net underwriting gain	<u>4,498,961</u>	<u>0.27</u>
Premiums earned	<u>\$1,690,370,306</u>	<u>100.00%</u>

F. Accounts and Records

i. Custodial Agreements

Upon examination it was determined that the Company's custodial agreement with NBT Bank lacked certain clauses required by the Department and the NAIC Financial Condition Examiners Handbook. Company management is noted to have taken the necessary steps during the course of the examination to have the agreement reworded in order to incorporate the required clauses.

Nonetheless, 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.

ii. Written Contract with independent Certified Public Accountants (“CPA”)

It is noted that Department Regulation 118 was revised during the course of the examination period with the current version of the regulation being effective beginning with the reporting period ending December 31, 2010. A review of the Company’s contract with its independent CPA firm revealed that the contract does not comply with certain requirements of Department Regulation 118.

Section 89.10 of Department Regulation 118 states:

“(a) Every company subject to this Part shall retain a CPA who agrees by written contract with such company to comply with the provisions of Insurance Law section 307(b) and this Part. The contract must specify:

(1) that the CPA is independent with respect to the company and is acting in conformity with the standards of the CPA's profession, such as contained in the Code of Professional Ethics and pronouncements of the AICPA and the Rules of Professional Conduct of the New York Board of Public Accountancy, or similar code and meets the definition of a CPA set forth in subdivision (g) of section 89.1 of this Part;

(2) that the CPA understands the annual audited financial report, that the CPA's opinion thereon will be filed in compliance with this Part and that the superintendent will be relying on this information in the monitoring and regulation of the financial condition of the company;

(3) that the CPA consents to the requirements of section 89.11 of this Part and that the CPA consents and agrees to make available the work papers for review by the superintendent; and

(4) that the CPA represents that it is in compliance with the requirements of section 89.5 of this Part.

(b) Every company subject to this Part shall further require that the CPA include, as part of each submission to the Department for which the CPA is responsible, the background and experience in general, and the experience of the staff assigned to the engagement and whether each is a CPA.”

Company management is noted to have taken the necessary steps during the course of the examination to have a contract executed that incorporates the required clauses.

Nonetheless, 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.

### 3. FINANCIAL STATEMENTS

#### A. Balance Sheet

The following shows the assets, liabilities and surplus as regards policyholders as of December 31, 2010 as determined by this examination and as reported by the Company:

<u>Assets</u>	<u>Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>
Bonds	\$679,212,241	\$ 0	\$679,212,241
Common stocks	93,867,278		93,867,278
Mortgage loans on real estate: First liens	61,802		61,802
Real Estate: Properties occupied by the company	10,018,563		10,018,563
Cash, cash equivalents and short-term investments	28,095,920		28,095,920
Investment income due and accrued	8,400,441		8,400,441
Uncollected premiums and agents' balances in the course of collection	10,652,933	320,805	10,332,128
Deferred premiums, agents' balances and installments booked but deferred and not yet due	102,358,458		102,358,458
Amounts recoverable from reinsurers	1,908,270		1,908,270
Net deferred tax asset	17,354,508		17,354,508
Electronic data processing equipment and software	7,680,677	4,328,931	3,351,746
Furniture and equipment, including health care delivery assets	932,571	932,571	0
Receivables from parent, subsidiaries and affiliates	4,050,293		4,050,293
Accounts receivable	34,625		34,625
Cash surrender value (Split Life)	11,914,195		11,914,195
Equities and deposits in pools and associations	1,909,189		1,909,189
Cash surrender value (COLI)	<u>9,444,234</u>	<u>0</u>	<u>9,444,234</u>
Total assets	<u>\$987,896,198</u>	<u>\$5,582,307</u>	<u>\$982,313,891</u>

Liabilities, Surplus and Other FundsLiabilities

Losses and loss adjustment expenses	\$297,662,884
Reinsurance payable on paid losses and loss adjustment expenses	3,802,974
Commissions payable, contingent commissions and other similar charges	7,409,088
Other expenses (excluding taxes, licenses and fees)	1,862,701
Taxes, licenses and fees (excluding federal and foreign income taxes)	208
Current federal and foreign income taxes	1,718,940
Unearned premiums	211,720,238
Advance premium	4,078,943
Ceded reinsurance premiums payable (net of ceding commissions)	16,390,085
Amounts withheld or retained by company for account of others	8,404,490
Retroactive reinsurance reserve assumed	<u>182,964</u>
Total liabilities	\$553,233,515

Surplus and Other Funds

Special contingent surplus for casualty lines	\$ 1,450,000
Adoption of SSAP 10R	3,785,568
Unassigned funds (surplus)	<u>423,844,808</u>
Surplus as regards policyholders	<u>429,080,376</u>
Total liabilities, surplus and other funds	<u>\$982,313,891</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 yet begun to audit tax returns covering tax years 2006 through 2010. 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

Surplus as regards policyholders increased \$103,947,114 during the four-year examination period January 1, 2007 through December 31, 2010, detailed as follows:

Underwriting Income

Premiums earned		\$1,690,370,306
Deductions:		
Losses and loss adjustment expenses incurred	\$1,151,787,888	
Other underwriting expenses incurred	<u>534,083,457</u>	
Total underwriting deductions		<u>1,685,871,345</u>
Net underwriting gain or (loss)		\$ 4,498,961

Investment Income

Net investment income earned	\$ 105,665,133	
Net realized capital loss	<u>(1,236,509)</u>	
Net investment gain or (loss)		104,428,624

Other Income

Net gain or (loss) from agents' or premium balances charged off	\$ (2,070,616)	
Finance and service charges not included in premiums	25,594,510	
Commutation of ceded reinsurance	(665)	
Miscellaneous service charge expense	(4,666,404)	
Pools and associations – misc. income	8,132	
Miscellaneous other income	<u>478,295</u>	
Total other income		<u>19,343,252</u>
Net income before dividends to policyholders and before federal and foreign income taxes		\$ 128,270,837
Dividends to policyholders		<u>0</u>
Net income after dividends to policyholders but before federal and foreign income taxes		\$ 128,270,837
Federal and foreign income taxes incurred		<u>26,175,079</u>
Net income		<u>\$ 102,095,758</u>

Surplus as regards policyholders per report on examination as of December 31, 2006			\$325,133,262
	<u>Gains in Surplus</u>	<u>Losses in Surplus</u>	
Net income	\$102,095,755	\$ 0	
Net unrealized capital gains or (losses)		5,970,199	
Change in net deferred income tax		6,423,657	
Change in non-admitted assets	2,543,599		
Change in provision for reinsurance	13,387		
Cumulative effect of changes in accounting principles	1,772,816		
Expense adjustment due to 2002 pooling change	534,155		
Capitalization of operating software	5,595,690		
Adoption of SSAP 10R	<u>3,785,568</u>	<u>0</u>	
Total gains or losses in surplus	<u>\$116,340,970</u>	<u>\$12,393,856</u>	
Net increase (decrease) in surplus			<u>\$103,947,114</u>
Surplus as regards policyholders per report on examination as of December 31, 2010			<u>\$429,080,376</u>

#### 4. LOSSES AND LOSS ADJUSTMENT EXPENSES

The examination liability for the captioned items of \$297,662,884 is the same as reported by the Company as of December 31, 2010. The examination analysis was conducted in accordance with generally accepted actuarial principles and practices and was based on statistical information contained in the Company's internal records and in its filed annual statements.

## 5. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

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

<u>ITEM</u>	<u>PAGE NO.</u>
A. <u>Holding Company System</u>	
It is recommended that the Company fully comply with the reporting requirements of Department Regulation 53 Part 81-1.2(f) and Department Circular Letter No. 17 (2001).	11
The Company has complied with this recommendation.	
B. <u>Accounts and Records</u>	
i. <u>Custodial Agreements</u>	
It is recommended that the Company amend the custodial agreements with Bank of America to include all the provisions required by the New York Insurance Department and the NAIC Financial Condition Examiners Handbook.	13
A similar comment is made in this report.	
ii. <u>Agreements with CPA Firms</u>	
It is recommended that the Company ensure that the contracts entered into with its independent auditors are in full compliance with Department Regulation 118.	14
A similar comment is made in this report.	
iii. <u>Directors and Officers Indemnification Insurance</u>	
It is recommended that the Company comply with Department Regulation 110 and ensure that its Directors and Officers indemnification policy includes the requisite coinsurance percentage.	14
The Company has complied with this recommendation.	
iv. <u>Compliance with SSAP No. 91</u>	
It is recommended that the Company require collateral for repurchase agreements having a fair value of at least 102% of the purchase price in accordance with SSAP No. 91, paragraph 71(a).	15
The Company has complied with this recommendation.	

<u>ITEM</u>	<u>PAGE NO.</u>
v. <u>Compliance with the Purposes and Procedures Manual of the NAIC SVO</u> It is recommended that the Company comply with the filing requirements of the Purposes and Procedures Manual of the NAIC Securities Valuation Office, specifically, Part Four, Section 1(d).  The Company has complied with this recommendation.	15
C. <u>Market Conduct Activities</u>  It is recommended that the Company appoint agents in accordance with Section 2112(a) of the New York Insurance Law prior to transacting business with the agent.  The Company has complied with this recommendation.	20

## **6. SUMMARY OF COMMENTS AND RECOMMENDATIONS**

<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.	9
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. It is noted that a similar recommendation was included in the previous two reports on examination.	12
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 two reports on examination.	13

Respectfully submitted,

\_\_\_\_\_/s/\_\_\_\_\_  
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Wayne Longmore  
Senior Insurance Examiner

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

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

\_\_\_\_\_/s/\_\_\_\_\_  
\_\_\_\_\_

Wayne Longmore

Subscribed and sworn to before me

this \_\_\_\_\_ day of \_\_\_\_\_, 2011.

Appointment No. 30625

STATE OF NEW YORK  
INSURANCE DEPARTMENT

I, James J. Wrynn Superintendent of Insurance of the State of New York,  
pursuant to the provisions of the Insurance Law, do hereby appoint:

**Wayne Longmore**

*as proper person to examine into the affairs of the*

**NEW YORK CENTRAL MUTUAL FIRE INSURANCE COMPANY**

*and to make a report to me in writing of the condition of the said*

**Company**

*with such other information as he shall deem requisite.*

*In Witness Whereof, I have hereunto subscribed by the  
name and affixed the official Seal of this Department, at  
the City of New York,*

*this 4th day of January, 2011*



*James J. Wrynn*  
\_\_\_\_\_  
JAMES J. WRYNN  
Superintendent of Insurance