REPORT ON EXAMINATION

OF

UTICA FIRST INSURANCE COMPANY

AS OF

DECEMBER 31, 2017

DATE OF REPORT	SEPTEMBER 21, 2018
EXAMINER	ADEBOLA AWOFESO

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NEW YORK STATE
DEPARTMENT *of*
FINANCIAL SERVICES

Andrew M. Cuomo
Governor

Maria T. Vullo
Superintendent

September 21, 2018

Honorable Maria T. Vullo
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 31709 dated January 31, 2018, attached hereto, I have made an examination into the condition and affairs of the Utica First Insurance Company as of December 31, 2017, and submit the following report thereon.

Wherever the designation “the Company” appears herein without qualification, it should be understood to indicate Utica First 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 5981 Airport Road, Oriskany, NY 13424.

1. SCOPE OF EXAMINATION

The Department has performed an individual examination of the Company, a multi-state insurer. The previous examination was conducted as of December 31, 2012. This examination covered the five-year period from January 1, 2013 through December 31, 2017. 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 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
Holding company description
Reinsurance
Loss review and analysis
Financial statement presentation
Significant subsequent events
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 organized in 1903 as the Utica Fire Insurance Company of Oneida County, N.Y., for the purpose of transacting business as a co-operative fire insurance corporation in Oneida County, New York.

On March 1, 1942, the Company was authorized to issue non-assessable policies.

Under Agreements of Merger approved by this Department, the Company merged with the Colonial Co-operative Fire Insurance Company, of Newburgh, New York and the Dwelling Insurance Association of Central New York, of Ilion, New York in 1941 and 1956, respectively, under the title and charter of the Utica Fire Insurance Company of Oneida County, N.Y.

Effective January 1, 1994, the Company was authorized by this Department to change its name to “Utica First Insurance Company”.

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 fifteen members. The board met four times during each calendar year. At December 31, 2017, the board of directors was comprised of the following ten members:

Name and Residence	Principal Business Affiliation
Gregory P. Evans Clinton, NY	President, Indium Corporation
Lawrence M. Fitzgerald Utica, NY	Partner, Rinehard Fitzgerald and DePietro
Richard R. Griffith New Hartford, NY	President, Sturges Manufacturing
Kirk B. Hinman Rome, NY	Chief Executive Officer, Rome Strip Steel

Name and Residence	Principal Business Affiliation
Camille Kahler Utica, NY	Partner, Saunders, Kahler, Amoroso, Locke Law Firm
Alan R. Leist, Jr. Utica, NY	Chief Executive Officer, Strategic Financial Services
Louis B. Tehan Utica, NY	President, Upstate Cerebral Palsy
Eve Van de Wal New Hartford, NY	Regional President, Excellus
John Zawadzki Manlius, NY	Retired
Richard J. Zick New Hartford, NY	President and Chief Executive Officer, Utica First Insurance Company

A review of the minutes of the board of directors' meetings held during the examination period indicated that the meetings were generally well attended.

Review of the minutes of the board of directors' meetings also indicated the following:

- Directors, Earle Clifford Reed (resigned on 12/8/2015) and John Millet Jr. (resigned on 12/6/16). However, Messrs. Reed & Millet were listed on the 2016 & 2017 Annual Statements as Directors.
- Director Eve Van de Wal was elected as a Director on 1/1/2017, but was not listed in the 2017 Annual Statements.

It is recommended that the Company exercise due diligence in filing its Annual Statements and include accurate members of the Board of Directors.

As of December 31, 2017, the principal officers of the Company were as follows:

Name	Title
Richard James Zick	President and Chief Executive Officer
Scott Andrew Shatraw	Secretary/Treasurer, Chief Financial Officer, Vice-President
Shawn Michael Kain	Vice President of Underwriting
Susan Marie Wheaton	Vice President of Claims
Richard Raymond Shlotzhauer	Vice President, Chief Information Officer
David Bruce Jarvis	Vice President of Agencies
Edward Williams Scannell III	Vice President of Marketing

B. Territory and Plan of Operation

As of December 31, 2017, the Company was licensed to write business in the following ten states: Connecticut, Florida, Maryland, Massachusetts, New Jersey, New York, Ohio, Pennsylvania, Rhode Island, and Virginia.

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:

Paragraph	Line of Business
4	Fire
5	Miscellaneous property damage
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
16	Fidelity and surety
19	Motor vehicle and aircraft physical damage
20	Marine and inland marine (inland marine only)

The Company is also licensed to accept and cede reinsurance as provided in Section 6606 of the Insurance Law of the State of New York.

The following schedule shows the direct premiums written by the Company both in total and in New York for the period under examination:

Calendar Year	New York State	Total Premiums	Premiums Written in New York State as a percentage of Total Premium
2013	$72,829,607	$118,773,047	61.32%
2014	$79,229,432	$133,930,317	59.16%
2015	$84,151,265	$144,420,879	58.27%
2016	$87,145,926	$152,373,273	57.19%
2017	$89,255,262	$160,661,821	55.55%

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 $1,200,000.

The Company is a New York regional property and casualty insurance carrier specializing in small contractors, restaurants, retail stores, offices, and homeowners' insurance. At December 31, 2017, the Company wrote insurance through 450 independent agents. The Company's predominant lines of business are commercial multiple peril and homeowners multiple peril which accounted for 74.8% and 23.6% of the Company's 2017 direct written premium, respectively.

C. Reinsurance Ceded

The Company has structured its ceded reinsurance program to limit its maximum exposure to any one risk to $100,000. A summary of the Company's ceded reinsurance program for 2017 is as follows:

Type of Treaty	Cession
Property (including terrorism coverage) (3 Layers) 100% Authorized	$3,900,000 excess of $100,000 ultimate net loss, each loss, each risk and further subject to a limit of liability to the Reinsurer of $4,700,000 each occurrence.
Property Catastrophe Excess of Loss 100 % Authorized	
First Layer	$2,000,000 excess of $3,000,000 ultimate net loss, each occurrence, subject to a limit of liability to the reinsurer of $4,000,000.
Second Layer	$5,000,000 excess of $5,000,000 ultimate net loss, each occurrence, subject to a limit of liability to the reinsurer of $10,000,000.
Third Layer	$10,000,000 excess of $10,000,000 ultimate net loss, each occurrence, subject to a limit of liability to the reinsurer of $20,000,000.
Fourth Layer	$29,000,000 excess of $20,000,000 ultimate net loss, each occurrence, subject to a limit of liability to the reinsurer of $58,000,000.
Fifth Layer	$30,000,000 excess of $49,000,000 ultimate net loss, each occurrence, subject to a limit of liability to the reinsurer of $60,000,000
Sixth Layer	$14,000,000 excess of $79,000,000 ultimate net loss, each occurrence, subject to a limit of liability to the reinsurer of $48,000,000 (43.67% placed)
Sixth Layer (continued)	$24,000,000 excess of $79,000,000 ultimate net loss, each occurrence, subject to a limit of liability to the reinsurer of $48,000,000 (56.33% placed)
Seventh Layer	$10,000,000 excess of $93,000,000 ultimate net loss, each occurrence, subject to a limit of liability to the reinsurer of $20,000,000 (56.33% placed)

Property Terrorism	$17,000,000 excess of $2,000,000 ultimate net loss, each loss occurrence, subject to a limit of $34,000,000 per contract year.
Casualty (including terrorism coverage) (4 Layers) 100% Authorized	$3,900,000 excess of $100,000, each occurrence.

The Company maintains facultative reinsurance coverage for its property exposures with total insured value over $2,500,000; facultative coverage is in excess of $1,000,000 each loss.

The Company also maintains quota share coverage for commercial and homeowners' policies whereby it cedes 100% of the liability and premium for its equipment breakdown business written on its policies and endorsements for equipment breakdown coverage. Cessions by the Company for these treaties limit the liability to the Reinsurer to $20,000,000 for the commercial coverage, and $100,000 for the homeowner's coverage on any one risk.

The Company also maintains additional coverage for endorsements to Identity Theft Risk policies written for office risks only that is limited to $15,000 per insured, and Employment Practices policies for offices only that is limited to $100,000 each wrongful act, subject to an annual aggregate limit of $100,000, as well as for Data Compromise policies for these offices up to $25,000 per policy, $250,000 aggregate limit to the Reinsurer.

The Company also maintains reinsurance coverage for its Identity Theft Risk policies and its Employment Practices Liability policies that do not cover offices. The reinsurance coverage is limited to $15,000 annual aggregate per insured and to $250,000 each wrongful act, subject to an annual aggregate limit to the Reinsurer not to exceed $250,000, respectively.

The Company also maintains reinsurance coverage for its personal, farm and commercial umbrella policies, and Miscellaneous Professional Liability Coverage.

The Company also maintains a cyber liability quota share coverage. This is a 100% quota share agreement with the reinsurer's limit of liability at $100,000 each claim, with a maximum aggregate limit of $100,000 per policy, each year of the contract.

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 SSAP No. 62R. Representations were supported by appropriate risk transfer analyses and an attestation from the Company's Chief Executive Officer and Controller 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 was not a member of any Holding Company system at December 31, 2017.

E. Significant Ratios

The Company’s operating ratios, computed as of December 31, 2017, fall within the benchmark ranges set forth in the Insurance Regulatory Information System of the National Association of Insurance Commissioners.

Operating Ratios	Result
Net premiums written to surplus as regards policyholders	61%
Liabilities to liquid assets (cash and invested assets less investments in affiliates)	49%
Premiums in course of collection to surplus as regards policyholders	3%

Underwriting Ratios

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

	Amounts	Ratio
Losses and loss adjustment expenses incurred	$257,611,327	68.82%
Other underwriting expenses incurred	106,172,939	28.36
Net underwriting loss	10,539,246	2.82
Premiums earned	$374,323,512	100.00%

The Company's reported risk based capital score ("RBC") was 787.90% at 12/31/17. RBC is a measure of the minimum amount of capital appropriate for a reporting entity to support its overall business operations in consideration of its size and risk profile. An RBC of 200 or below can result in regulatory action. There were no financial adjustments in this report that impacted the Company's RBC score.

3. FINANCIAL STATEMENTS

A Balance Sheet

The following shows the assets, liabilities and surplus as regards policyholders as of December 31, 2017 as reported by the Company:

Assets	Assets	Assets Not Admitted	Net Admitted Assets
Bonds	$186,160,163		$186,160,163
Common stocks	46,002,661		46,002,661
Properties occupied by the Company	2,252,353		2,252,353
Cash, cash equivalents and short-term investments	9,473,406		9,473,406
Investment income due and accrued	1,802,525		1,802,525
Uncollected premiums and agents' balances in the course of collection	3,820,439	$127,961	3,692,478
Deferred premiums, agents' balances and installments booked but deferred and not yet due	30,982,201		30,982,201
Amounts recoverable from reinsurers	7,454,017		7,454,017
Net deferred tax asset	2,525,189		2,525,189
Electronic data processing equipment and software	54,737		54,737
Furniture and equipment, including health care delivery assets	1,856,179	1,856,179	
Key man life insurance cash surrender value	607,498		607,498
FAIR plan/NAMICO assets	494,004	45,468	448,536
FAIR plan assessments	187,226		187,226
Summary of remaining write-ins	182,111	182,111	0
Total assets	$293,854,709	$2,211,719	$291,642,990

Liabilities, Surplus and Other Funds

Liabilities		
Losses and loss adjustment expenses		$ 88,291,412
Commissions payable, contingent commissions and other similar charges		3,749,506
Other expenses (excluding taxes, licenses and fees)		4,178,588
Taxes, licenses and fees (excluding federal and foreign income taxes)		708,425
Current federal taxes and foreign income taxes		386,949
Unearned premiums		47,002,471
Advance premium		1,819,727
Ceded reinsurance premiums payable (net of ceding commissions)		1,328,091
Funds held by company under reinsurance treaties		2,188
Amounts withheld or retained by company for account of others		554,418
Remittances and items not allocated		247,752
Reinsurance in liquidation-amount held		620
Reserve-outstanding stale dated checks written off		836,644
Total liabilities		$149,106,791
Surplus and Other Funds		
Special contingent surplus	$ 1,200,000	
Surplus notes	7,000,000	
Unassigned funds (surplus)	134,336,199	
Surplus as regards policyholders		142,536,199
Total liabilities, surplus and other funds		$291,642,990

Note: The Internal Revenue Service has not yet begun to audit tax returns covering tax years 2013 through 2017. 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 five-year examination period as reported by the Company, from January 1, 2013 through December 31, 2017 was $43,241,545 detailed as follows:

Underwriting Income		
Premiums earned		$374,323,512
Deductions:		
Losses and loss adjustment expenses incurred	$257,611,327	
Other underwriting expenses incurred	106,172,939	
Total underwriting deductions		363,784,266
Net underwriting gain		$10,539,246
Investment Income		
Net investment income earned	$30,784,533	
Net realized capital gain	10,634,969	
Net investment gain		41,419,502
Other Income		
Net loss from agents' or premium balances charged off	$(2,383,403)	
Finance and service charges not included in premiums	5,590,664	
Aggregate write-ins for miscellaneous income	399,936	
Total other income		3,607,197
Net income before dividends to policyholders and before federal and foreign income taxes		$ 55,565,945
Dividends to policyholders		0
Net income after dividends to policyholders but before federal and foreign income taxes		$ 55,565,945
Federal and foreign income taxes incurred		(12,324,400)
Net income		$ 43,241,545

C. Surplus

Surplus as regards policyholders as reported by the Company increased $42,201,872 during the five-year examination period from January 1, 2013 through December 31, 2017, detailed as follows:

	Increases in Surplus	Decreases in Surplus	
Surplus as regards policyholders as reported by the Company as of December 31, 2012			$100,334,327
Net income	$43,241,545		
Net unrealized capital gain	2,232,613		
Change in net deferred income tax		$ 60,065	
Change in non-admitted assets		1,414,404	
Change in surplus notes		500,000	
Cumulative effect of changes in accounting principles	0	597,817	
Total gains and losses	$45,474,158	$3,272,286	
Net increase in surplus			42,201,872
Surplus as regards policyholders as reported by the Company as of December 31, 2017			$142,536,199

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 $88,291,412 is the same as reported by the Company as of December 31, 2017. The analysis was done 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. SUBSEQUENT EVENTS

As of January 1, 2018, Richard Zick retired from his position of President and CEO of the Company and agreed to remain with the Company as a consultant to the Board of Directors for one year. Per the decision of the succession planning committee and approval by the Board of Directors, Mr. Scott A. Shatraw became the new President and CEO effective January 1, 2018.

6. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

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

ITEM		PAGE NO.
A	Reinsurance	
i.	It is recommended that the offset clause found in these agreements be amended to state that the offset will comply with Section 1308 and 7427 of the New York Insurance Law. The Company has complied with this recommendation.	8
ii.	It is also recommended that all future agreements to which the Company is a party that contain an offset clause, include the proper wording stating that Section 7427 of the New York State Insurance Law will apply in the event of rehabilitation or liquidation. The Company has complied with this recommendation.	8
B	Accounts and Records	
i.	It is therefore recommended that the Company comply with Department Regulation 90, Part 218.4(a) by including specific reasons for termination in agent termination notices. The Company has complied with this recommendation.	9

ii. It is recommended that the Company comply with Section 3425(c) of the New York Insurance Law by not issuing mid-term cancellations for other than statutory reasons. 10

The Company has complied with this recommendation.

iii. It is recommended that the Company comply with Section 3425(d)(1) of the New York Insurance Law by issuing non-renewal notices at least forty-five, but no more than sixty days in advance of the end of the policy period unless the named insured, agent or broker, or an insurer of the named insured has notified the Company in writing that the policy has been replaced or is no longer desired. 10

The Company has complied with this recommendation.

iv. It is also recommended that the Company use the correct terminology in corresponding with policyholders as far as distinguishing between cancellations and non-renewals. 11

The Company has complied with this recommendation.

v. It is recommended that the Company comply with part 109.3(j) of Regulation by conducting a time study in the current period for all Company units when using it as a basis for allocation of expenses, or documenting an investigation that shows that a study done in another period is appropriate for use during the current period. 11

The Company has complied with this recommendation.

vi. It is recommended that the Company fully document the existence and performance of each risk mitigation strategy in order for examiners to evaluate the existence of controls in place at the Company to determine whether the control procedures are operating as expected and performed on a timely basis. Included in the documentation should be required sign-offs by the preparers and reviewers. 11

The Company has complied with this recommendation.

vii. It is recommended that the Company retain each periodic worksheet, and not write over worksheets from previous periods with current worksheets. 12

The Company has complied with this recommendation.

7. SUMMARY OF COMMENTS AND RECOMMENDATIONS

ITEM		PAGE NO.
A	Corporate governance	
i	It is recommended that the Company exercise due diligence in filing its Annual Statements and include accurate members of the Board of Directors.	4

Respectfully submitted,

__________/S/______________
Adebola Awofeso,
Financial Examiner 2

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

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

___________/S/_____________

Adebola Awofeso

Subscribed and sworn to before me

this__________ day of ___________________, 2019.

APPOINTMENT NO. 31709

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:*

Adebola Awofeso

as a proper person to examine the affairs of the

Utica First 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 31th day of January, 2018

MARIA T. VULLO
Superintendent of Financial Services

By:

Joan Riddell
Deputy Bureau Chief