

REPORT ON EXAMINATION

OF

ERIE INSURANCE COMPANY OF NEW YORK

AS OF

DECEMBER 31, 2015

DATE OF REPORT

JANUARY 6, 2017

EXAMINER

SUSAN K. WEIJOLA, CPCU

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NEW YORK STATE  
DEPARTMENT *of*  
FINANCIAL SERVICES

Andrew M. Cuomo  
Governor

Maria T. Vullo  
Superintendent

January 6, 2017

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 31410 dated January 14, 2016, attached hereto, I have made an examination into the condition and affairs of Erie Insurance Company of New York as of December 31, 2015, and submit the following report thereon.

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

Wherever the term “Department” appears herein without qualification, it should be understood to mean the New York State Department of Financial Services.

The examination was conducted at the Company’s administrative office located at 100 Erie Insurance Place Erie, PA 16530.

## **1. SCOPE OF EXAMINATION**

The Department has performed a coordinated group examination of the Company, a multi-state insurer. 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 where deemed appropriate by the examiner.

The examination was conducted in conjunction with the state of Pennsylvania, which was the coordinating state of the Erie Insurance Group. The examination was performed concurrently with the examinations of the following insurers: Erie Insurance Exchange; Erie Family Life Insurance Company; Erie Insurance Company; Erie Insurance Property & Casualty Company, and Flagship City 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 and an evaluation based upon the Company’s Sarbanes Oxley documentation and testing. 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:

Significant subsequent events  
 Company history  
 Corporate records  
 Management and control  
 Fidelity bonds and other insurance  
 Pensions, stock ownership and insurance plans  
 Territory and plan of operation  
 Growth of Company  
 Loss experience  
 Reinsurance  
 Accounts and records  
 Statutory deposits  
 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**

Erie Insurance Company of New York was incorporated under the laws of the State of New York on September 1, 1885 as Co-operative Insurance Company of Western New York and commenced operations the same day. On May 18, 1992, the board of directors adopted a plan of demutualization for the Company. The Department approved the plan on April 20, 1994; the same day, the Company adopted its current name. The Company is a wholly owned subsidiary of Erie Insurance Company, a Pennsylvania domestic property and casualty insurer.

Capital paid in is \$2,350,000 consisting of 23,500 shares of \$100 par value per share common stock. Gross paid in and contributed surplus is \$9,150,000. Gross paid in and contributed surplus increased \$5,000,000 during the examination period.

<u>Year</u>	<u>Description</u>	<u>Amount</u>
2010	Beginning gross paid in and contributed surplus	\$4,150,000
2014	Surplus contribution	<u>\$5,000,000</u>
2015	Ending gross paid in and contributed surplus	<u>\$9,150,000</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 not less than seven nor more than twenty-one members. The board meets four times during each calendar year. At December 31, 2015, the board of directors was comprised of the following nine members:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Richard Francis Burt, Jr. Erie, PA	Executive Vice President, Erie Insurance Company of New York
James Ernest Caflisch Clymer, NY	Clerk, Chautauqua County Legislature
Terrence William Cavanaugh Erie, PA	President & Chief Executive Officer, Erie Insurance Company of New York
George David Dufala Erie, PA	Executive Vice President, Erie Insurance Company of New York
Gregory John Gutting Erie, PA	Interim Executive Vice President & Chief Financial Officer, Erie Insurance Company of New York
Thomas Bailey Hagen Erie, PA	Chairman of the Board, Erie Insurance Company of New York
Robert Coleman Ingram, III Erie, PA	Executive Vice President & Chief Information Officer, Erie Insurance Company of New York
John Francis Kearns Fairview, PA	Executive Vice President, Erie Insurance Company of New York
Sean Joseph McLaughlin Erie, PA	Executive Vice President, Secretary and General Counsel, Erie Insurance Company of New York

A review of the minutes of the board of directors' meetings held during the examination period indicated that the meetings were generally well attended and each board member had an acceptable record of attendance.

As of December 31, 2015, the principal officers of the Company were as follows:

<u>Name</u>	<u>Title</u>
Terrence William Cavanaugh	President and Chief Executive Officer
Sean Joseph McLaughlin	Executive Vice President, Secretary and General Counsel
Gregory John Gutting	Interim Executive Vice President & Chief Financial Officer
Robert Wayne McNutt	Vice President and Treasurer

During the review of signed conflict of interest statements submitted by officers, directors, and key employees during the examination period, it was noted that no signed statement was provided for Director James Caflisch for 2015. When this matter was discussed with the Company, the examiner was advised that the Company's legal department could not locate the signed 2015 conflict of interest statement for Mr. Caflisch.

It is recommended that the Company have all officers, directors, and key employees sign a conflict of interest statement annually as required in its conflict of interest policy.

New York Department Regulation 152 (11NYCRR Part 243.2) states in part:

“(b)(8) Except as otherwise required by law or regulation, an insurer shall maintain:...Any other record for six calendar years from its creation or until after the filing of a report on examination or the conclusion of an investigation in which the record was subject to review.”

Accordingly, it is also recommended that the Company maintain a record of the signed conflict of interest statements for Department review in accordance with the provisions of New York Department Regulation 152.

B. Territory and Plan of Operation

As of December 31, 2015, the Company was licensed to write business in twelve states and the District of Columbia.

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
26(B)	Gap

Based on 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 and 41 of the New York Insurance Law, the Company is required to maintain a minimum surplus to policyholders in the amount of \$3,500,000.

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

<u>Calendar Year</u>	<u>New York State</u>	<u>Total Premiums</u>	Premiums Written in New York State as a <u>percentage of Total Premium</u>
2011	\$7,020,034	\$48,890,310	14.36%
2012	\$7,912,264	\$60,121,146	13.16%
2013	\$19,402,616	\$79,426,602	24.43%
2014	\$35,093,516	\$102,445,512	34.26%
2015	\$48,154,769	\$121,029,515	39.79%



The Company primarily writes workers' compensation and private passenger auto lines of business, which accounted for 66% and 15%, respectively, of the 2015 total direct written premiums. Business is written through approximately 12,000 independent agents throughout the United States.

C. Reinsurance

Assumed reinsurance accounted for 19.6% of the Company's gross premium written at December 31, 2015. During the period covered by this examination, the Company's assumed reinsurance business has decreased since the last examination. All of the Company's assumed business was derived from its participation in an inter-company pooling agreement described below.

Inter-company Pooling Agreement

Effective date of January 1, 1995, the Company entered into an inter-company pooling agreement with Erie Insurance Exchange ("the Exchange"), and Erie Insurance Company ("EIC"), whereby the Company and EIC cede 100% of their insurance business to the Exchange. The Exchange then retrocedes 5% and 0.5% of all its insurance business to EIC and the Company, respectively. The agreement was approved by this Department and has not changed since the last examination.

Ceded Reinsurance

The Company and its affiliates are parties to a ceded reinsurance program as follows:

<u>Type of Treaty</u>	<u>Cession</u>
Property	
Excess of Loss (3 layers)	
1 <sup>st</sup> layer	\$100,000,000 each loss each occurrence / \$200,000,000 all losses, excess of \$300,000,000

2 <sup>nd</sup> layer	\$500,000,000 each loss each occurrence / \$1,000,000,000 all losses, excess of \$400,000,000
3 <sup>rd</sup> layer	\$200,000,000 each loss each occurrence / \$400,000,000 all losses, excess of \$900,000,000
Fourth Excess Catastrophe	\$25,000,000 each loss each occurrence / \$50,000,000 all losses, excess of \$1,100,000,000
Equipment Breakdown 100% Quota Share	\$100,000,000 per accident
Employment Practices Liability 100% Quota Share	\$2,000,000 limit per policy
Identity Recovery Coverage 100% Quota Share	\$25,000 per insured

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.

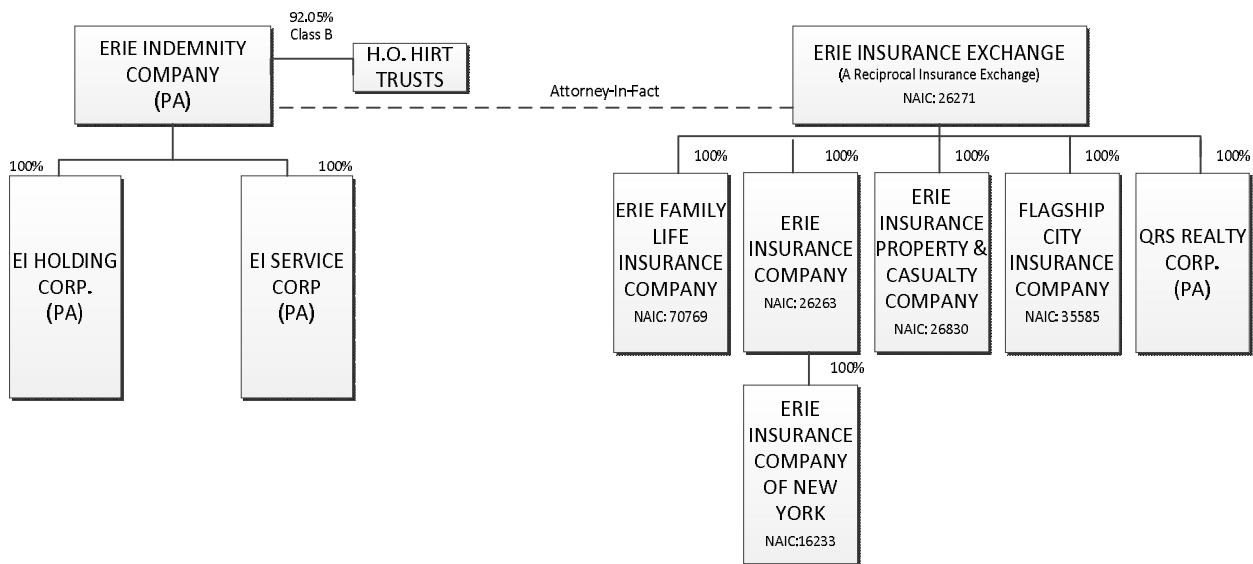
Examination review found that the Schedule F data reported by the Company in its filed annual statement accurately reflected its reinsurance transactions. Additionally, management has represented that all material ceded reinsurance agreements transfer both underwriting and timing risk as set forth in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

#### D. Holding Company System

The Company is a member of the Erie Insurance Group (“the Group”). The Company is 100% owned by Erie Insurance Company (“EIC”), a Pennsylvania domestic property and casualty insurer, which is wholly-owned by Erie Insurance Exchange (“the Exchange”), a subscriber (or policyholder) owned Pennsylvania domiciled reciprocal insurer.

A review of the Holding Company Registration Statements filed with this Department indicated that such filings were complete and were filed in a timely manner pursuant to Article 15 of the New York Insurance Law and Department Regulation 52.

The following is a chart of the holding company system at December 31, 2015:



Erie Indemnity Company (“Indemnity”) is a Pennsylvania corporation formed in 1925 to act as the attorney-in-fact for Erie Insurance Exchange. Indemnity’s principal business activity consists of managing the affairs of the Exchange.

The H.O. Hirt Trusts owns 92.05% of the voting common stock (Class B) of Indemnity and is the ultimate controlling person.

At December 31, 2015, the Company was party to the following agreements with other members of its holding company system:

### Service Agreement

Effective January 1, 1995, the Company entered into a service agreement with Erie Indemnity Company. Indemnity agreed to provide all necessary and appropriate management services for the day to day operations of the Company including, underwriting, claims, investment and generally managing and conducting the business affairs of the Company. This agreement was approved as part of the demutualization package submitted to the Department.

### Tax Sharing Agreement

Effective May 29, 2013, the Company entered into a tax sharing agreement with other members of the Erie Insurance Group. The agreement sets forth the process to be used to determine the tax liability of each member. This agreement was approved by the Department on April 11, 2013.

### E. Significant Operating Ratios

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

Net premiums written to surplus as regards policyholders	99%
Liabilities to liquid assets	54%
Premiums in course of collection to surplus as regards policyholders	8%

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	\$89,225,985	72.91%
Other underwriting expenses incurred	34,853,623	28.48
Net underwriting loss	<u>(1,694,623)</u>	<u>(1.38)</u>
Premiums earned	<u>\$122,384,985</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 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	\$ 54,388,107	\$ 0	\$ 54,388,107
Preferred stocks (stocks)	0	0	0
Common stocks (stocks)	28,812	0	28,812
Cash, cash equivalents and short-term investments	3,185,634	0	3,185,634
Receivables for securities	4,125	0	4,125
Investment income due and accrued	641,421	0	641,421
Uncollected premiums and agents' balances in the course of collection	2,624,335	103,885	2,520,450
Deferred premiums, agents' balances and installments booked but deferred and not yet due	40,236,225	0	40,236,225
Amounts recoverable from reinsurers	12,004	0	12,004
Funds held by or deposited with reinsured companies	11,305	0	11,305
Current federal and foreign income tax recoverable and interest thereon	88,855	0	88,855
Receivables from parent, subsidiaries and affiliates	174,680	0	174,680
Premium tax credits & other	6,595		6,595
Equity and deposits in pools and association	5,395		5,395
Other accounts receivable	<u>2,390</u>	<u>0</u>	<u>2,390</u>
Total assets	<u>\$101,409,883</u>	<u>\$103,885</u>	<u>\$101,305,998</u>

## Liabilities, surplus and other funds

	<u>Examination</u>
Losses and Loss Adjustment Expenses	\$ 19,683,939
Reinsurance payable on paid losses and loss adjustment expenses	7,478
Other expenses (excluding taxes, licenses and fees)	1,551
Taxes, licenses and fees (excluding federal and foreign income taxes)	202,633
Net deferred tax liability	690,324
Unearned premiums	12,084,203
Advance premium	249,912
Policyholders (dividends declared and unpaid)	37,205
Ceded reinsurance premiums payable (net of ceding commissions)	35,745,603
Amounts withheld or retained by company for account of others	55,700
Remittances and items not allocated	12,472
Payable to parent, subsidiaries and affiliates	2,789,767
Other accounts payable	<u>13,578</u>
<b>Total liabilities</b>	<b>\$ 71,574,365</b>
<u>Surplus and other funds</u>	
Common capital stock	\$ 2,350,000
Gross paid in and contributed surplus	9,150,000
Unassigned funds (surplus)	<u>18,231,633</u>
Surplus as regards policyholders	<u>29,731,633</u>
<b>Total liabilities, surplus and other funds</b>	<b><u>\$101,305,998</u></b>

Note: The Company is unaware of any potential exposure 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, January 1, 2011 through December 31, 2015, was \$1,466,921 detailed as follows:

Underwriting Income

Premiums earned		\$122,384,985
Deductions:		
Losses and loss adjustment expenses incurred	\$89,225,985	
Other underwriting expenses incurred	34,792,291	
Other underwriting deductions - LAD program expense	<u>61,332</u>	
Total underwriting deductions		<u>124,079,608</u>
Net underwriting gain or (loss)		(\$1,694,623)

Investment Income

Net investment income earned	\$ 8,441,541	
Net realized capital gain	<u>(696,587)</u>	
Net investment gain or (loss)		7,744,954

Other Income

Net gain or (loss) from agents' or premium balances charged off	(\$605,024)	
Miscellaneous income	<u>46,033</u>	
Total other income		<u>( 558,991)</u>
Net income before dividends to policyholders and before federal and foreign income taxes		\$ 5,491,340
Dividends to policyholders		<u>151,420</u>
Net income after dividends to policyholders but before federal and foreign income taxes		\$ 5,339,920
Federal and foreign income taxes incurred		<u>3,872,999</u>
Net Income		<u>\$ 1,466,921</u>

C. Capital and Surplus

Surplus as regards policyholders increased \$9,926,227 during the five-year examination period January 1, 2011 through December 31, 2015, detailed as follows:

Surplus as regards policyholders per report on examination as of December 31, 2010			\$19,805,406
	<u>Gains in Surplus</u>	<u>Losses in Surplus</u>	
Net income	\$1,466,921		
Net transfers (to) from protected cell accounts			
Net unrealized capital gains or (losses)	6,867		
Change in net unrealized foreign exchange capital gain (loss)			
Change in net deferred income tax	3,509,843		
Change in nonadmitted assets		\$57,404	
Capital changes transferred to surplus			
Surplus adjustments paid in	<u>5,000,000</u>	<u>0</u>	
Net increase (decrease) in surplus	<u>\$9,983,631</u>	<u>\$57,404</u>	<u>9,926,227</u>
Surplus as regards policyholders per report on examination as of December 31, 2015			<u>\$29,731,633</u>



#### 4. LOSSES AND LOSS ADJUSTMENT EXPENSES

The examination liability for the captioned items of \$19,683,939 is the same as reported by the Company as of December 31, 2015. The examination analysis 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 no recommendations.

#### 6. SUMMARY OF COMMENTS AND RECOMMENDATIONS

<u>ITEM</u>	<u>PAGE NO.</u>
A <u>Management</u>	
i It is recommended that the Company have all officers, directors and key employees sign a conflict of interest statement annually as required in its conflict of interest policy.	5
ii It is also recommended that that the Company maintain a record of the signed statements for Department review in accordance with the provisions of New York Department Regulation 152.	5

Respectfully submitted,

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Susan K. Weijola, CPCU  
Associate Insurance Examiner

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

Susan K. Weijola, being duly sworn, deposes and says that the foregoing report, subscribed by her,  
is true to the best of her knowledge and belief.

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Susan K. Weijola

Subscribed and sworn to before me

this \_\_\_\_\_ day of \_\_\_\_\_, 2017.

**APPOINTMENT NO. 31410**

**NEW YORK STATE**

**DEPARTMENT OF FINANCIAL SERVICES**

*I, **SHIRIN EMAMI**, Acting 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:*

***Susan Weijola***

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

***Erie Insurance Company of New York***

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

**COMPANY**

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

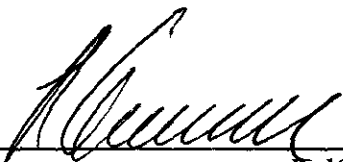
*In Witness Whereof, I have hereunto subscribed by name  
and affixed the official Seal of the Department  
at the City of New York*

*this 14th day of January, 2016*

*Shirin Emami  
Acting Superintendent of Financial Services*



By:



*Rolf Kaumann  
Deputy Chief Examiner*