

REPORT ON EXAMINATION

OF

UNITED FRONTIER MUTUAL INSURANCE COMPANY

AS OF

DECEMBER 31, 2014

DATE OF REPORT

AUGUST 31, 2016

EXAMINER

SHEIK H. MOHAMED

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NEW YORK STATE
DEPARTMENT *of*
FINANCIAL SERVICES

Andrew M. Cuomo
Governor

Maria T. Vullo
Superintendent

June 19, 2018

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

Madam:

Pursuant to the requirements of the New York Insurance Law, and in compliance with the instructions contained in Appointment Number 31281 dated March 13, 2015, attached hereto, I have made an examination into the condition and affairs of United Frontier Mutual Insurance Company as of December 31, 2014, and submit the following report thereon.

Wherever the designation “the Company” appears herein without qualification, it should be understood to indicate United Frontier Mutual 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 195 Davison Road, Lockport, New York, 14094.

1. SCOPE OF EXAMINATION

The Department has performed a single-state examination of United Frontier Mutual Insurance Company. The previous examination was conducted as of December 31, 2009. This examination covered the five-year period from January 1, 2010 through December 31, 2014. 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 New York laws, statutory accounting principles and annual statement instructions.

All financially significant accounts and activities of the Company were considered in accordance with the risk-focused examination process. 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
- 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

The Company was organized in 1877 as The Farmers Mutual Insurance Company of Orleans and Niagara Counties, for purposes of transacting business as an assessment cooperative fire insurance company.

In 1970, the Department permitted the Company to change its name to the Niagara Orleans Mutual Insurance Company.

On January 1, 1984, the Department issued a certificate permitting the Company to do business as an advance premium cooperative insurance company and to issue non-assessable policies.

On July 1, 1986, the Niagara and Erie County Farmers' Protective Association merged into the Company. On January 1, 1987, the Frontier Co-operative Fire Insurance Company merged into the Company. The merged companies at this time petitioned the Superintendent for approval to change the Company's name to the United Frontier Mutual Insurance Company. Permission was granted for the use of the new name effective January 1, 1987.

On July 1, 1999, The Alliance Mutual Insurance Company merged into the Company.

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 nine nor more than twenty-five members. The board meets four times during each calendar year. At December 31, 2014, the board of directors was comprised of the following twelve members:

Name and Residence

Principal Business Affiliation

David W. Cloy
Ransomville, NY

Business Owner

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Carolyn R. Flansburg Albion, NY	Assistant Secretary and Accountant, United Frontier Mutual Insurance Company
John C. Gavenda Albion, NY	Attorney and College Professor
Kathleen A. Haley Lockport, NY	Business Owner – Accounting Services
Lynn G. Hill Albion, NY	Town Councilman
John W. Long Albion, NY	Farmer
Glenn D. Maxon Holly, NY	Bus Driver
David H. Muck Williamsville, NY	Retired
Pamela J. Nelligan Williamsville, NY	Business Analyst
Edward P. Urbanik Lyndonville, NY	Vice President
Elaine B. Wendt Newfane, NY	School Principal
Thomas S. Wronski Lockport, NY	President, United Frontier Mutual 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 and each board member had an acceptable record of attendance.

As of December 31, 2014, the principal officers of the Company were as follows:

<u>Name</u>	<u>Title</u>
David W. Cloy	Chairman of the Board
Thomas S. Wronski	President
Elaine B. Wendt	Secretary
Carol A. Wunderlich	Treasurer
Jean M. Petronio	Vice President

B. Territory and Plan of Operation

As of December 31, 2014, 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
9	Boiler and machinery
12	Collision
13	Personal injury liability
14	Property damage liability
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 \$542,714.

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

<u>Calendar Year</u>	<u>Total Premiums</u>
2010	\$3,016,692
2011	\$2,923,203
2012	\$2,882,977
2013	\$2,926,573
2014	\$3,823,659

As of December 31, 2014, the Company wrote insurance primarily through independent agents. The Company's major lines of business are commercial multiple peril, homeowners multiple peril, and fire, which accounted for 52%, 32%, and 9.1%, respectively, of the Company's 2014 direct written premiums.

C. Reinsurance

Assumed reinsurance accounted for 7.39% of the Company's gross premium written at December 31, 2014. During the period covered by this examination, the Company's assumed reinsurance business has remained constant since the last examination. The assumptions reflect the Company's participation in the NAMICO Reinsurance Facility ("NAMICO") as well as assumptions from the Regional Reciprocal Catastrophe Pool ("RRCP"). NAMICO provides reinsurance on directors and officers liability and insurance company professional liability insurance policies. Under the RRCP the Company reinsures its pro-rata share of a catastrophe pool. The Company utilizes reinsurance accounting as defined in Statement of Statutory Accounting Principle ("SSAP") No. 62R for all of its assumed reinsurance business.

The Company has structured its ceded reinsurance program as follows:

<u>Type of Treaty</u>	<u>Cession</u>
Property Excess of Loss 2 layers	\$850,000 excess of \$150,000 each loss, each risk; liability of the reinsurer not to exceed \$700,000 and \$1,000,000 ultimate net loss each loss occurrence for the first and second layers, respectively.
Property Catastrophe Excess of Loss	97.5% of ultimate net loss over and above an initial ultimate net loss of \$250,000 each loss occurrence; subject to a limit of liability to the reinsurer of 97.5% of \$1,250,000 each loss occurrence.
Property Facultative	Cessions to this contract shall be limited to a maximum cession of \$500,000 on any one risk subject to a minimum net retention of \$250,000.
Property and Casualty Combined	\$150,000 in excess of \$150,000 each loss occurrence in the event of a loss occurrence involving at least one casualty and at least one property policy. Recoveries under Property, Casualty, and Casualty Clash shall reduce the ultimate net loss subject to this paragraph.
Casualty Excess of Loss 2 layers	\$850,000 in excess of \$150,000 each loss occurrence.
Casualty Clash Excess of Loss	\$1,000,000 in excess of \$1,000,000 ultimate net loss each loss occurrence.
Umbrella Facultative 2 layers	\$1,950,000 of ultimate net loss, each loss occurrence, each policy, on all business reinsured subject to an annual aggregate limit of \$10,000,000 inclusive of loss adjustment expense, during the term of the contract, for all Acts of Terrorism, as defined and as covered by the contract.

As of December 31, 2014, the Company had in place an equipment breakdown coverage 100 percent quota share reinsurance treaty.

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 President and Treasurer pursuant to the NAIC annual statement instructions. Additionally, examination review indicated that the Company was not a party to any finite reinsurance agreements. All ceded reinsurance agreements were accounted for utilizing reinsurance accounting as set forth in SSAP No. 62R.

D. Holding Company System

As of December 31, 2014, the Company was not a member of any holding company system.

E. Significant Operating Ratios

The following ratios have been computed as of December 31, 2014, based upon the results of this examination:

Net premiums written to policyholders' surplus	34%
Adjusted liabilities to liquid assets	33%
Gross agents' balances (in collection) to policyholders' surplus	1%

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	\$ 7,769,243	55.32%
Other underwriting expenses incurred	5,490,630	39.09
Net underwriting gain	<u>785,172</u>	<u>5.59</u>
 Premiums earned	 <u>\$14,045,045</u>	 <u>100.00%</u>

F. Accounts and Records

Preparation of 2014 Annual Statement

The following observations were noted during the review of the 2014 annual statement:

1. The Company reported its book/adjusted carrying value in the actual cost column. Also, several call dates and call amounts were not entered on Schedule D Part 1. These errors affected the Company's calculation of the 2014 book/adjusted carrying value.

2. The Company failed to disclose the proper recoverable amount for Sirius America Insurance Company in the Notes to the Financial Statement. The recoverable should have been reported as \$912,000 instead of the reported \$731,491.

3. The Company lists the Mutual Reinsurance Bureau on Schedule F, Part 3 as a reinsurer. The Mutual Reinsurance Bureau is a reinsurance intermediary and not a reinsurer.

4. The Company responded "No" to General Interrogatories Part 1, question #24.01 which asked if all the stocks, bonds and other securities owned at year-end, over which the Company has exclusive control in the actual possession of the Company at year-end. The Company, however, failed to provide full and complete information for interrogatory #24.02.

5. General Interrogatories Part 2, #13.1 - The Company failed to provide a response to this interrogatory.

It is recommended that in the future the Company exercise greater care when completing its annual and quarterly statements filed with this Department.

3. FINANCIAL STATEMENTS

A. Balance Sheet

The following shows the assets, liabilities and surplus as regards policyholders as of December 31, 2014 as reported by the Company:

<u>Assets</u>	<u>Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>
Bonds	\$ 7,662,858		\$ 7,662,858
Common stocks	4,018,670		4,018,670
Properties occupied by the company	367,086		367,086
Cash, cash equivalents and short-term investments	892,876		892,876
Company owned life insurance	823,824		823,824
Investment income due and accrued	73,949		73,949
Uncollected premiums and agents' balances in the course of collection	123,389		123,389
Deferred premiums, agents' balances and installments booked but deferred and not yet due	567,031		567,031
Funds held by or deposited with reinsured companies	123,867		123,867
Current federal and foreign income tax recoverable and interest thereon	72,470		72,470
Net deferred tax asset	29,566		29,566
Electronic data processing equipment and software	93,154	\$85,061	8,093
Net equity in NY Fair Plan	21,830		21,830
All other accounts receivable	20,235		20,235
Pre-paid expenses	<u>1,450</u>	<u>1,450</u>	<u>0</u>
Total assets	<u>\$14,892,255</u>	<u>\$86,511</u>	<u>\$14,805,744</u>

Liabilities, Surplus and Other fundsLiabilities

Losses and loss adjustment expenses	\$ 2,065,200
Commissions payable, contingent commissions and other similar charges	73,203
Other expenses (excluding taxes, licenses and fees)	367,678
Unearned premiums	2,004,026
Advance premium	59,742
Ceded reinsurance premiums payable (net of ceding commissions)	130,757
Amounts withheld or retained by company for account of others	<u>2,215</u>
 Total liabilities	 \$ 4,702,821

Surplus and Other Funds

Special surplus funds	\$ 700,000
Unassigned funds (surplus)	<u>9,402,923</u>
Surplus as regards policyholders	<u>10,102,923</u>
 Total liabilities, surplus and other funds	 <u>\$14,805,744</u>

Note: The Internal Revenue Service (“IRS”) has completed its audits of the Company’s Federal Income Tax returns through tax year 2008. 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. There are no IRS audits currently in process. 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 income for the examination period as reported by the Company was \$1,656,649 as detailed below:

Underwriting Income

Premiums earned		\$14,045,045
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Deductions:

Losses and loss adjustment expenses incurred	\$7,769,243	
Other underwriting expenses incurred	<u>5,490,630</u>	

Total underwriting deductions		<u>13,259,873</u>
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Net underwriting gain or (loss)		\$ 785,172
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Investment Income

Net investment income earned	\$1,059,441	
Net realized capital gain	<u>377,855</u>	

Net investment gain or (loss)		1,437,296
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Other Income

Net gain or (loss) from agents' or premium balances charged off	\$ (7,856)	
Finance and service charges not included in premiums	<u>144,178</u>	

Total other income		<u>136,322</u>
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Net income before federal income taxes		\$ 2,358,790
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Federal income taxes incurred		<u>702,141</u>
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Net income		\$ <u>1,656,649</u>
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C. Capital and Surplus Account

Surplus as regards policyholders increased \$2,011,813 during the five-year examination period January 1, 2010 through December 31, 2014, detailed as follows:

Surplus as regards policyholders as reported by the Company as of December 31, 2009				\$ 8,091,110
		<u>Gains in Surplus</u>	<u>Losses in Surplus</u>	
Net income	\$1,656,649			
Net unrealized capital gains or (losses)	440,189			
Change in net deferred income tax			\$110,698	
Change in non-admitted assets			69,016	
Change in non-admitted - FAIR Plan			568	
Non-taxable income(expense): company owned life insurance	84,945			
Correction of unearned premium from software glitch	1,583			
Adjustment for error in setting up abandoned property reserve	<u>8,729</u>		<u>0</u>	
Net increase (decrease) in surplus	\$2,192,095		\$180,282	<u>2,011,813</u>
Surplus as regards policyholders as reported by the Company as of December 31, 2014				<u>\$10,102,923</u>

4. LOSSES AND LOSS ADJUSTMENT EXPENSES

The examination liability for the captioned items of \$2,065,200 is the same as reported by the Company as of December 31, 2014. The examination analysis of the loss and loss adjustment expense reserves was conducted in accordance with generally accepted actuarial principles and statutory accounting principles, including the NAIC Accounting Practices & Procedures Manual, Statement of Statutory Accounting Principle No. 55 (“SSAP No. 55”).

5. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

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

<u>ITEM</u>	<u>PAGE NO.</u>
A. <u>Management</u>	
i. It was recommended that the directors and officers of United Frontier Mutual Insurance Company remain mindful of their fiduciary responsibilities to the Company and its policyholders, as set forth in Section 717(a) and 715(h) of the New York Business Corporation Law. In addition, the Company should replace any director or officer of the Company who cannot or does not fulfill his/her duties in good faith and with that degree of care, which an ordinarily prudent person in a like position would use under similar circumstances.	6
The Company has complied with this recommendation.	
ii. It was recommended that the Company comply with Sections 1411(a) and 1411(f)(1) of the New York Insurance Law.	6
The Company has complied with this recommendation.	
iii. It was recommended that the Company formalizes and keep updated a credit card usage policy and have same approved by the Board of Directors.	6
The Company has complied with this recommendation.	
B. <u>Accounts and Records</u>	
It was recommended that the Company comply with Section 1217 of the New York Insurance Law and obtain proper documentation from the payee for goods and services rendered for the Company.	10
The Company has complied with this recommendation.	
C. <u>Risk Management and Internal Controls</u>	
It was recommended that the Company implement and keep updated a formal succession plan in order to protect the best interests of the Company and its policyholders.	10
The Company has complied with this recommendation.	

6. SUMMARY OF COMMENTS AND RECOMMENDATIONSITEMPAGE NO.A. Accounts and Records

It is recommended that in the future the Company exercise greater care when completing its annual and quarterly statements filed with this Department.

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Respectfully submitted,

Sheik Mohamed, CPCU, CPA
Associate Insurance Examiner

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

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

Sheik Mohamed

Subscribed and sworn to before me

this _____ day of _____, 2018.

APPOINTMENT NO. 31281

NEW YORK STATE

DEPARTMENT OF FINANCIAL SERVICES

I, **BENJAMIN M. LAWSKY**, Superintendent of Financial Services of the State of New York, pursuant to the provisions of the Financial Services Law and the Insurance Law, do hereby appoint:

Sheik Mohamed

as a proper person to examine the affairs of the

United Frontier Mutual 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 13th day of March, 2015

BENJAMIN M. LAWSKY
Superintendent of Financial Services



By:



Rolf Kaumann
Deputy Chief Examiner