REPORT ON EXAMINATION

OF THE

ASSOCIATED MUTUAL INSURANCE COOPERATIVE

AS OF

DECEMBER 31, 2011

DATE OF REPORT	APRIL 3, 2013
EXAMINER	JOSEPH REVERS

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April 3, 2013

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 30871 dated August 3, 2012, attached hereto, I have made an examination into the condition and affairs of Associated Mutual Insurance Cooperative as of December 31, 2011, and submit the following report thereon.

Wherever the designation "the Company" appears herein without qualification, it should be understood to indicate Associated Mutual Insurance Cooperative.

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 39 Broadway, Woodridge, NY 12789.

1. SCOPE OF EXAMINATION

The Department has performed an individual examination of the Company, a single-state insurer. The previous examination was conducted as of December 31, 2006. This examination covered the five-year period from January 1, 2007 through December 31, 2011. 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. 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
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 Associated Mutual Insurance Cooperative of Woodridge, New York was the surviving company of five closely related cooperatives. These Companies were under the same management and were simultaneously consolidated and converted into a mutual fire insurance company on January 1, 1971 upon meeting the requirements of Sections 6629 and 7306 of the New York Insurance Law. The first of the five cooperatives, known collectively as the Associated Cooperative Fire Insurance Companies of Sullivan and Adjoining Counties, began operations in 1913. The other cooperatives were organized later to enlarge their capacity to meet the growing requirements of their members.

On January 1, 1997, upon meeting the requirements of Section 7306-a of the New York Insurance Law, the Company simultaneously reconverted into an assessment cooperative corporation, and then into an advance premium cooperative property/casualty insurance corporation. Also, on January 1, 1997, the name of the corporation was changed to the Associated Mutual Insurance Cooperative, with a new license issued to do property/casualty insurance business in the state of New York.

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 fifteen members. The board meets 10 times during each calendar year, thereby complying with Section 6624(b) of the New York Insurance Law. At December 31, 2011, the board of directors was comprised of the following nine members:

Name and Residence	Principal Business Affiliation
William Kevin Kerrigan Katonah, NY	Attorney,
Irwin Robert Gitlin Liberty, NY	CPA, Cooperative Federal Credit Union
Herman Rosh Liberty, NY	Insurance Agent,
Gary Bayard Bowers Narrowsburg, NY	Vice-President Finance, Associated Mutual Insurance Cooperative
Robert Leonard Kaplan Woodridge, NY	Poultry Farmer, Cooperative Federal Credit Union
Zane Alan Morganstein Monticello, NY	President and Chief Executive Officer, Associated Mutual Insurance Cooperative
Marvin Stanley Rappaport Forestburgh, NY	Chief of Staff, National Director of the Anti-Defamation League
Daniel Berkowicz Loch Sheldrake, NY	Executive Director, Cooperative Federal Credit Union
David Levitz Grahamsville, NY	Retired Farmer

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, 2011, the principal officers of the Company were as follows:

Name	Title
Zane Alan Morganstein	President
Robert Leonard Kaplan	Secretary
Gary Bayard Bowers	Vice-President Finance
Irwin Robert Gitlin	Chairman

B. Territory and Plan of Operation

As of December 31, 2011, 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:

Paragraph	Line of Business
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
19	Motor vehicle and aircraft physical damage
20	Marine and inland marine

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, 41 and 66 of the New York Insurance Law, the Company is required to maintain a minimum surplus to policyholders in the amount of $475,000.

At December 31, 2011, the Company wrote insurance business through independent agents. The Company's predominate lines of business are commercial multiple peril and homeowners' multiple peril, which accounted for 92.71% and 3.06% respectively of the Company's 2011 direct written business.

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

Calendar Year	Total Premiums
2007	$10,100,311
2008	$ 8,947,245
2009	$ 8,545,646
2010	$ 7,624,725
2011	$ 7,126,612

C. Reinsurance

Assumed

The Company did not assume business during the examination period.

Ceded

The Company has structured its ceded reinsurance program as follows:

Type of Treaty	Cession
Multiline Excess of Loss	
Property 100% authorized	$850,000 excess of $150,000 each loss, each risk, limit $2,550,000 each loss occurrence.
Casualty 100% authorized	$850,000 excess of $150,000 each loss occurrence. As respects fire damage legal liability: $500,000 excess of $1,000,000 each loss occurrence.
Casualty and Property combined	As respects any one occurrence including one or more property and one or more casualty classes, $150,000 excess of $150,000 any one occurrence.
Homeowners 100% authorized	$450,000 excess of $50,000 each loss, each risk, limit $1,350,000 each loss occurrence.
Casualty Clash 100% authorized	$1,000,000 excess of $1,000,000 each loss occurrence.
Property Catastrophe Excess of Loss (4 layers – 100% authorized)	$8,500,000 excess of $400,000 each loss occurrence (97.5% of first $5,000,000 excess of $400,000 and 100% on the remaining $3,500,000).
Property Facultative Per Risk Excess of Loss 100% authorized	$500,000 excess of $500,000 each loss, each risk. (homeowners business)
Casualty Facultative Excess of Loss 100% authorized	$1,000,000 excess of $1,000,000 each loss occurrence, each Policy.
Equipment Breakdown Quota Share 100% authorized	100% Quota Share on all policies classified as equipment breakdown.

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 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

As of December 31, 2011, the Company was not a member of a holding company system.

E. Significant Operating Ratios

The following ratios have been computed as of December 31, 2011, based upon the results of this examination:

Net premiums written to surplus as regards policyholders	55%
Liabilities to liquid assets (cash and invested assets less investments in affiliates)	65%
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 five-year period covered by this examination:

	Amounts	Ratios
Losses and loss adjustment expenses incurred	$25,283,400	68.80%
Other underwriting expenses incurred	13,020,430	35.43
Net underwriting loss	(1,556,842)	(4.24)
Premiums earned	$36,746,988	100.00%

F. Accounts and Records

Upon review of the claim files, it was noted that the Company does not keep copies of checks paid for loss adjustment expenses. It was not possible to verify the signer(s) of the checks and the third party name the check was issued to.

It is recommended that the Company keep copies of checks paid for loss adjustment expenses.

3. FINANCIAL STATEMENTS

A Balance Sheet

The following shows the assets, liabilities and surplus as regards policyholders as of December 31, 2011 as determined by this examination and as reported by the Company:

Assets	Assets	Assets Not Admitted	Net Admitted Assets
Bonds	$18,184,903	$ 0	$18,184,903
Common stocks	1,160,034	0	1,160,034
Properties occupied by the Company	298,345	0	298,345
Properties held for the production of income	117,110	0	117,110
Cash, cash equivalents and short-term investments	4,857,144	0	4,857,144
Receivables for securities	104	0	104
Investment income due and accrued	85,246	0	85,246
Uncollected premiums and agents' balances in the course of collection	215,279	3,377	211,902
Deferred premiums, agents' balances and installments booked but deferred and not yet due	1,809,884	0	1,809,884
Amounts recoverable from reinsurers	237,804	0	237,804
Current federal and foreign income tax recoverable and interest thereon	134,277	0	134,277
Net deferred tax asset	773,398	440,437	332,961
Electronic data processing equipment and software	50,974	0	50,974
Furniture and equipment, including health care delivery assets	22,332	22,332	0
Equities & deposits in pools & associations	139,707	0	139,707
Miscellaneous receivable	3,182	3,182	0
Credit card and ACH receipts receivable	11,768	0	11,768
Total Assets	$28,101,491	$469,328	$27,632,163

Liabilities		
Losses and loss adjustment expenses		$13,012,742
Commissions payable, contingent commissions and other similar charges		161,380
Other expenses (excluding taxes, licenses and fees)		657,181
Taxes, licenses and fees (excluding federal and foreign income taxes)		403
Unearned premiums		3,671,486
Advance premium		82,600
Ceded reinsurance premiums payable (net of ceding commissions)		68,498
Amounts withheld or retained by company for account of others		13,228
Payable for fixed assets		18,355
Total liabilities		$17,685,873
Minimum and special contingent surplus	$ 800,000	
Unassigned funds (surplus)	9,146,290	
Surplus as regards policyholders		$ 9,946,290
Total Liabilities, Surplus and Other Funds		$27,632,163

Note: The Internal Revenue Service did not audit the Company's Federal income tax returns covering tax years 2008 through 2011. 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 $2,264,026 during the five-year examination period January 1, 2007 through December 31, 2011, detailed as follows:

Underwriting Income		
Premiums earned		$36,746,988
Deductions:		
Losses and loss adjustment expenses incurred	$25,283,400	
Other underwriting expenses incurred	13,020,430	
Total underwriting deductions		38,303,830
Net underwriting gain or (loss)		$ (1,556,842)
Investment Income		
Net investment income earned	$ 4,172,189	
Net realized capital gain	47,929	
Net investment gain or (loss)		4,220,118
Other Income		
Net gain or (loss) from agents' or premium balances charged off	$ 131,711	
Finance and service charges not included in premiums	539,102	
Aggregate write-ins for miscellaneous income	362,318	
Total other income		1,033,131
Net income before dividends to policyholders and before federal and foreign income taxes		$ 3,696,407
Dividends to policyholders		0
Net income after dividends to policyholders but before federal and foreign income taxes		$ 3,696,407
Federal and foreign income taxes incurred		1,161,656
Net Income		$ 2,534,751

	Gains in Surplus	Losses in Surplus	
Surplus as regards policyholders per report on examination as of December 31, 2006			$7,682,264
Net income	$2,534,751		
Net unrealized capital gains or (losses)		235,745	
Change in net deferred income tax	113,228		
Change in nonadmitted assets	0	148,208	
Net increase (decrease) in surplus	$2,647,979	$383,953	$2,264,026
Surplus as regards policyholders per report on examination as of December 31, 2011			$9,946,290

4. LOSSES AND LOSS ADJUSTMENT EXPENSES

The examination liability for the captioned items of $13,012,742 is the same as reported by the Company as of December 31, 2011. The examination analysis was conducted 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 five recommendations as follows (page numbers refer to the prior report):

ITEM		PAGE NO.
A.	Accounts and Records	
i	Backing up of Premium Detail Data It is recommended that henceforth, the Company generate a back of the premium detail data information supporting its annual and quarterly statement filings with this Department and be able to produce same upon examination. The Company has complied with this recommendation.	9
ii	Recording Securities Transactions at the Trade Date vs. Settlement Date It is recommended that the Company record bond and stock acquisitions and disposals on the trade date, and not on the settlement date, except for the acquisition of private placement securities, which should be recorded on the funding date, in accordance with SSAP No. 26, paragraph 4 (for bonds); SSAP No. 30, paragraph 5 (for common stocks); SSAP No. 32, paragraph 10 (for preferred stocks) and SSAP No. 43, paragraph 6 (for loan-backed and structured securities). The Company has complied with this recommendation.	9
iii	Custodian Agreement It is recommended that the Company remain mindful of the provisions of the NAIC Financial Condition Examiner Handbook for any future custodial agreements being entered into. The Company should also endeavor to correctly complete the Annual Statement General Interrogatories relative to the compliance of its custodial agreement(s) with the requirements of the NAIC Financial Condition Examiners Handbook, henceforth. The Company has complied with this recommendation.	10
iv	Real Estate Appraisal It is recommended that the Company comply with the requirements of SSAP No. 40, paragraph 12 and maintain an appraisal that is no more than five years old as of the reporting date, for all properties held for production of income. The Company has complied with this recommendation.	10

B. Market Conduct Activities

It is recommended that the Company ensure that the wording included in its producer termination letters fully complies with Part 218.5(a) of Regulation 90 at all times. Note that a similar recommendation made during the previous examination. 15

The Company has complied with this recommendation.

6. SUMMARY OF COMMENTS AND RECOMMENDATIONS

ITEM		PAGE NO.
A.	Accounts and Records It is recommended that the Company keep copies of checks paid for loss adjustment expenses.	8

Respectfully submitted,

/s/
Joseph Revers, CFE
Senior Insurance Examiner

STATE OF NEW JERSEY)
)ss:
COUNTY OF SUSSEX)

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

/s/
Joseph Revers

Subscribed and sworn to before me

this_________ day of __________________, 2013.

APPOINTMENT NO. 30871

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:*

Joseph Revers

as a proper person to examine the affairs of the

ASSOCIATED MUTUAL INSURANCE COOPERATIVE

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 my name and affixed the official Seal of the Department at the City of New York

this 3rd day of August, 2012

BENJAMIN M. LAWSKY
Superintendent of Financial Services

By:

Jean Marie Cho
Deputy Superintendent