

REPORT ON EXAMINATION

OF THE

NEW YORK MUNICIPAL INSURANCE RECIPROCAL

AS OF

DECEMBER 31, 2011

DATE OF REPORT

OCTOBER 19, 2012

EXAMINER

VERONICA DUNCAN BLACK

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NEW YORK STATE
DEPARTMENT *of*
FINANCIAL SERVICES

Andrew M. Cuomo
Governor

Benjamin M. Lawsky
Superintendent

October 19, 2012

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 30632 dated January 4, 2011, attached hereto, I have made an examination into the condition and affairs of New York Municipal Insurance Reciprocal as of December 31, 2011 and submit the following report thereon.

Wherever the designation “the Reciprocal” appears herein without qualification, it should be understood to indicate New York Municipal Insurance Reciprocal.

Wherever the designations “WRM” or “the Manager” appear herein without qualification, they should be understood to refer to Wright Risk Management Company, Inc., Manager for the New York Municipal Insurance Reciprocal.

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 offices of WRM, the Reciprocal’s manager, located at 333 Earle Ovington Boulevard, Uniondale, New York 11553.

1. SCOPE OF EXAMINATION

The Department has performed a single-state examination of New York Municipal Insurance Reciprocal. The previous examination was conducted as of December 31, 2003. This examination covered the eight-year period from January 1, 2004 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 Reciprocal by obtaining information about the Reciprocal including corporate governance, identifying and assessing inherent risks within the Reciprocal 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 accounts and activities of the Reciprocal were considered in accordance with the risk-focused examination process. This examination also included a review and evaluation of the Reciprocal’s internal control environment. The examiners also relied upon audit work performed by the Reciprocal’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 and insurance plans
- Territory and plan of operation
- Growth of Reciprocal
- 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 Reciprocal 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 RECIPROCAL

The New York Municipal Insurance Reciprocal is a reciprocal insurer, as defined in Section 107(a)(37) of the New York Insurance Law and was organized pursuant to the provisions of Article 61 of the New York Insurance Law. As promulgated by Section 6102(b) of the New York Insurance Law, the Superintendent approved the declaration creating a municipal reciprocal on August 23, 1993. The Reciprocal was licensed on August 31, 1993 and commenced business on the same day.

The Reciprocal was organized to provide a market source for property and casualty insurance for New York State counties, towns, villages, cities or district corporations organized and existing under the finance laws of the State of New York and it is owned and operated by the municipalities (“subscribers”) that it insures. The Reciprocal’s policyholders engage in the business of inter-insurance on the reciprocal plan through an attorney-in-fact. Due to the composition of the reciprocal, it is exempt from both state and federal income tax pursuant to Section 115 of the Internal Revenue Code. As a condition of membership of the Reciprocal, each subscriber is required to execute a Subscriber’s Agreement to which each member agrees to share proportionately in all losses, expenses, and profits of the reciprocal, based on the percentage that their premium represents to the total written premium by the Reciprocal.

Effective January 1, 2009, pursuant to Section 6109(a)(3) and a plan approved by the board of governors, the Reciprocal changed its method of accumulating its subscriber’s operating reserve. The new method of accumulating the operating reserve required all new subscribers and/or members to contribute 10% instead of 40% of their premiums as initial capitalization payable over the first five years of membership; this method also incorporated a return of capital to its members to ensure that both the current and future members would have paid a 10% capital contribution. This plan was initially approved by the Department for a three year period (2009 – 2011). In December 2012, the

Department approved to extend this plan for a fourth year in order for the board of governors to be able to complete the return of paid in capital to the Reciprocal's long-term subscribers.

In accordance with Section 6102(b)(12) of the New York Insurance Law, the Reciprocal has selected not to be subject to coverage by the Property/Casualty Insurance Security Fund under Article 76 of the New York Insurance Law. Accordingly, the Reciprocal issues assessable policies, which provide unlimited contingent several liability for assessment of its members. No assessments have been made since inception.

A. Management

Pursuant to the declaration executed by the Superintendent of Insurance, and Section 6102 of the New York Insurance Law, a board of governors was elected to act on behalf of the subscribers with powers to supervise and control the attorney-in-fact and to control investment of the assets of the reciprocal insurer, along with such powers as may be conferred by the by-laws and Subscribers' Agreement. The by-laws and the Subscribers' Agreement specify that the board of governors should consist of no fewer than nine members. The board meets four times during each calendar year. At December 31, 2011, the board of governors was comprised of the following thirteen members:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
John Layne Airmont, NY	Deputy Code Enforcement Officer, Town of Upper Nyack
Robert Bondi Mahopac, NY	County Executive, Putnam County
Don Barber Ithaca, NY	Supervisor, Town of Caroline
John T. McDonald III Cohoes, NY	Mayor, City of Cohoes
John LaPointe Putnam, NY	Supervisor, Putnam County
Sandra Frankel Rochester, NY	Supervisor, Town of Brighton

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
William Cherry Schoharie, NY	County Treasurer, Schoharie County
Kim K. Muller Oneonta, NY	Risk Manager Liaison, City of Oneonta
John R. Stead Broadalbin, NY	Administrative Officer, Fulton County
Dominic G. Mazza Avon, NY	Livingston County Traffic Safety Board, Livingston County
Timothy Whitesell Binghamton, NY	Supervisor, Town of Binghamton
Kenneth C. Andrews Dewitt, NY	Town Councilman, Town of Dewitt
Patricia Dwyer Hawthorne, NY	Administration, Village of Pleasantville

A review of the minutes of the board of governors' 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 Reciprocal were as follows:

<u>Name</u>	<u>Title</u>
Robert Bondi	President
Donald Barber	Vice President
John McDonald	Treasurer
Timothy Whitesell	Secretary

Conflict of Interest Policy

The Reciprocal has a conflict of interest policy in place for its governors and key employees. A review of the conflict of interest policy shows that the governors did not complete nor sign a conflict of interest questionnaire for seven of the eight years under examination. An effective conflict of interest policy is important to provide a safeguard for the activities and the assets of the

Reciprocal by requiring individuals to disclose any interest in outside activities where a conflict or perceived conflict may arise.

It is recommended that the Reciprocal put the necessary procedures in place to ensure that all of its board members and key employees sign completed conflict of interest statements on an annual basis and retain such statements in its files. It is further recommended that the completed and signed conflict of interest statements be provided to the Reciprocal's board of governors, and that the review of such statements be acknowledged in the minutes to the board of governors' meetings.

Attorney-In-Fact Agreement

Pursuant to an agreement dated January 1, 2011, the Reciprocal appointed the New York State Local Government Services Foundation, Inc. ("NYSLGF") as its Attorney-in-Fact. The agreement replaces a similar agreement with NYSLGF, which was executed in March 1995. Pursuant to the amended Attorney-in-Fact Agreement, NYSLGF shall assist and coordinate with Wright Risk Management Company ("WRM") in the marketing of the Reciprocal to New York's general purpose local governments for which it will receive annual compensation of 2.25% of gross written premium; such fee covers, among other costs, the compensation, benefits and related expenses for the services of the Executive Director.

Management Agreement

Effective August 27, 1993, Wright Risk Management Company entered into an agreement with NYSLGF, whereby WRM agreed to assist NYSLGF in the administration of the Reciprocal, and those activities and operations reserved to the board of governors pursuant to the Subscriber's Agreement and the New York Insurance Laws or Regulations. Effective January 1, 2009, NYSLGF renewed its management agreement with WRM covering a five year period beginning January 1, 2009 and ending December 31, 2013. Pursuant to the terms of the agreement, the Manager agrees to supply all personnel and resources necessary to perform underwriting and policyholders' services, claims and risk management services, accounting and financial reporting services, engineering and/or information technology services, as well as regulatory and outside consultant services. The agreement also provides that WRM shall receive a fee for the captioned services, and that the fee shall not exceed 16% or be less than 14% of gross written premium for any calendar year.

B. Territory and Plan of Operation

As of December 31, 2011, the Reciprocal was licensed only in the State of New York pursuant to Article 61 of the New York Insurance Law and 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
13	Personal injury liability
14	Property damage liability
16	Fidelity and surety
19	Motor vehicle and aircraft physical damage
20	Marine and inland marine
29	Legal services

In February 2011, the Reciprocal filed a request with this Department to amend its certificate of authority to add fidelity insurance and legal services liability insurance as defined by paragraphs 16(A) and 29 of Section 1113 of the New York Insurance Law. The Department approved this amendment effective March 4, 2011. The Reciprocal also received approval to continue to do the business of Special Risk Insurance pursuant to Article 63 of the New York Insurance Law, effective September 2011.

Based on the lines of business for which the Reciprocal is licensed and pursuant to the requirements of Articles 13 and 61 of the New York Insurance Law, the Reciprocal is required to maintain a minimum surplus to policyholders in the amount of \$2,700,000.

The Reciprocal provides various property and liability insurance coverages to its member municipalities (cities, counties, towns and villages and other local public agencies). The Reciprocal policies are written on an occurrence basis, with the exception of public officials' liability, which is written on a claims-made basis. Nearly all of the Reciprocal's business is produced either directly or through a network of brokers and/or producers who are compensated a fee rather than a percentage commission.

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

<u>Calendar Year</u>	<u>Direct Premiums Written</u>
2004	\$45,328,075
2005	\$49,390,172
2006	\$49,439,533
2007	\$46,328,121
2008	\$42,182,163
2009	\$42,347,660
2010	\$41,121,018
2011	\$39,864,300

C. Reinsurance

Assumed

As of December 31, 2011, the Reciprocal did not participate in any type of assumed reinsurance program.

Ceded

The Reciprocal has structured its ceded reinsurance program as follows:

<u>Type of Coverage</u>	<u>Cession</u>
<u>Property</u>	
<u>Property Facultative Excess of Loss Reinsurance</u>	\$70,000,000 excess of \$200,000,000 per occurrence limit, subject to annual aggregate retention of \$1,000,000 on all loss occurrences in excess of an initial deductible of \$250,000 per occurrence for all perils for in county of Westchester, New York.
100% Authorized	
<u>Automatic Property Contributing Excess of Loss Reinsurance</u>	\$200,000,000 excess of \$250,000 per occurrence for all perils, subject to an annual aggregate retention of \$1,200,000.
Three Layers	
93.75% Authorized	
6.25% Unauthorized	

Type of CoverageCessionTerrorism and Sabotage Reinsurance

\$50,000,000 excess of \$250,000 any one occurrence, subject to \$100,000,000 in the annual aggregate any one occurrence specific to the Commonwealth Insurance Company's placement on the Automatic Property Contributing Excess of Loss Reinsurance Contract.

100% Authorized

CasualtyCasualty Excess of Loss ReinsuranceSection A

\$400,000 excess of \$600,000 net loss for each and every loss per subscriber per occurrence. Additionally, the reinsurer shall not be liable for the first \$500,000 otherwise recoverable under the contract.

100% Authorized

Section B – Clash Coverage

\$1,000,000 excess of \$1,000,000 net loss for each and every major loss. Additionally, the reinsurer shall not be liable for more than \$1,000,000 during an annual contract period.

Section C- Terrorism Coverage

\$600,000 excess of \$400,000 net loss for each and every loss occurrence that is a Certified Act of Terrorism, subject to a limit of \$1,000,000 in the aggregate for all losses due to Certified Acts of Terrorism during an annual contract period.

Section D – Crime Coverage

\$1,400,000 excess of \$600,000 net loss for each and every loss per subscriber per occurrence. Additionally, the reinsurer shall not be liable for the first \$400,000 otherwise recoverable under the contract.

Catastrophe Liability Excess of Loss Reinsurance

\$10,000,000 net loss each occurrence in excess of \$1,000,000 and/or any applicable underlying insurance with respect to each excess catastrophe liability policy written, subject to a \$20,000,000 policy general aggregate net loss.

100% Authorized

Boiler and MachineryEquipment Breakdown (Boiler and Machinery) Quota Share Excess of Loss ReinsuranceSection A

95% part of \$5,000,000 net loss for any one accident, any one policy.

Two Layers

Section B

\$30,000,000 excess \$5,000,000 net loss for any one accident, any one policy.

100% Authorized

Since the last report on examination, the Reciprocal added two new coverages (Terrorism Insurance Coverage and Crime Insurance Coverage) to its Casualty Excess of Loss Reinsurance Treaty. For its Property Facultative Excess of Loss treaty, the Reciprocal increased the limit from \$125,000,000 to \$200,000,000 and added an additional layer of coverage for Westchester County. For its Equipment Breakdown treaty, the Reciprocal increased the limit on the excess layer from \$25,000,000 to \$30,000,000.

During this examination period, the Reciprocal entered into a commutation agreement with an assuming reinsurer, Trenwick America Reinsurance Corporation (“TARCO”), whereby TARCO agreed to commute all of its outstanding liabilities arising from its reinsurance agreements with the Reciprocal for calendar years 2005 and prior. The commutation agreement was in recognition of TARCO’s distressed financial condition and a component of a formal run-off plan approved by its state of domicile (Connecticut Insurance Department). Overall, this agreement was intended to result in the cessation of TARCO and the winding up of its affairs. The Reciprocal received a sum of \$472,480 from TARCO in full satisfaction of the past, present, and future liability of any nature under the reinsurance agreements. Further, this commutation resulted in an immaterial loss to the Reciprocal’s surplus position.

The examination review found that the Schedule F data reported by the Reciprocal 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 Reciprocal’s Chief Executive Officer and Chief Financial Officer pursuant to the NAIC Annual Statement Instructions. Additionally, the examination review indicated that the Reciprocal 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.

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. Further, the Reciprocal obtained the appropriate collateral (letters of credit) for its cessions to unauthorized reinsurers. The letters of credit were reviewed for compliance with Department Regulations 133, and no exceptions were noted.

D. 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	54%
Liabilities to liquid assets (cash and invested assets less investments in affiliates)	58%
Premiums in course of collection to surplus as regards policyholders	10%

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 eight-year period covered by this examination:

	<u>Amounts</u>	<u>Ratios</u>
Losses and loss adjustment expenses incurred	\$148,748,496	59.95%
Other underwriting expenses incurred	79,483,302	32.03
Net underwriting gain	<u>19,885,398</u>	<u>8.01</u>
Premiums earned	<u>\$248,117,196</u>	<u>100.00%</u>

E. Accounts and Records

(i) Engagement Letter with CPA firm

Pursuant to Section 307(b)(1) of the New York Insurance Law, every insurer is required to file within five months of the end of each calendar year, an annual financial statement, together with an opinion thereon of an independent certified public accountant on the financial statement of such insurer. Additionally, Section 307(b)(1) states that:

Each such insurer shall require the accountant to notify the superintendent if the accountant has determined that the insurer has materially misstated its financial condition as reported to the superintendent or that the insurer does not meet minimum capital or surplus to policyholder requirements.

Further, Section 89.8 of Department Regulation 118 states:

- (a) Every company required to furnish an annual audited financial report shall require the CPA to report, in writing, to the superintendent, the board of directors and the company's audit committee within five business days of any determination by the CPA that the company has materially misstated its financial condition as reported to the superintendent as of the balance sheet date currently under audit or that the company does not meet the minimum capital or surplus requirement of the insurance law as of that date....
- (b) A company shall require that if the CPA, subsequent to the date of the audited financial report filed pursuant to this Part, becomes aware of facts that might have affected the report, the CPA acts in accordance with professional obligations imposed by the AICPA and PCAOB.

A review of the engagement letter between the Reciprocal and its independent certified public accountant indicated that it did not include an acknowledgment of the CPA's notification requirements pursuant to Section 307(b)(1) of the New York Insurance Law and Part 89.8 of Department Regulation 118. It is recommended that the Reciprocal require its CPA firm to amend the engagement letter to acknowledge the notification requirements of Section 307(b)(1) of the New York Insurance Law and Part 89.8 of Department Regulation 118.

(ii) Designation of an Audit Committee

Pursuant to Part 89.2(c) of Department Regulation 118, the Reciprocal designated an audit committee, which is comprised of the same members as its finance committee. The Reciprocal never notified the Department of its selection of an audit committee as required by Part 89.12(e) of Department Regulation 118, which states:

The Company shall submit written notification to the superintendent of the selection of its audit committee within 30 days of the effective date of this Part and within 30 days of any change in membership of the audit committee. The notice shall include a description of the reason for the change.

It is recommended that the Reciprocal provide written notification to the superintendent of its selection of an audit committee and any subsequent changes thereto pursuant to the provisions of Part 89.12(e) of Department Regulation 118.

F. Risk Management and Internal Control

Password Policy

A review of the Manager's IT controls revealed that user passwords currently expire after 180 days. Additionally, in order to change a password, the user must complete a hard copy password change request form, write the new password in clear text on the form, and submit the form to the IT Manager who then manually changes the password. The current policy does not comply with standard industry practices and may lead to unauthorized access to the computer systems.

It is recommended that the Manager develop an automated password change system, which would prompt users to change their password at least quarterly, prevent passwords from being reused, and enable the employees to change their passwords themselves, rather than through the IT Manager. The Reciprocal's Manager has acknowledged the need to change its password policy and has set a target date for implementing these policy changes.

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 Reciprocal:

<u>Assets</u>	<u>Assets</u>	<u>Examination</u>	<u>Net Admitted</u>
		<u>Assets Not Admitted</u>	<u>Assets</u>
Bonds	\$106,650,975	\$ 0	\$106,650,975
Cash, cash equivalents and short-term investments	3,024,112	0	3,024,112
Receivables for securities	519,225	0	519,225
Investment income due and accrued	578,416	0	578,416
Uncollected premiums and agents' balances in the course of collection	5,298,795	0	5,298,795
Amounts recoverable from reinsurers	1,776,151	0	1,776,151
Fees	9,893	0	9,893
Recoverables	<u>84,214</u>	<u>0</u>	<u>84,214</u>
Totals	<u>\$117,941,781</u>	<u>\$ 0</u>	<u>\$117,941,781</u>

Liabilities, Surplus and Other Funds

	<u>Examination</u>
<u>Liabilities</u>	
Losses and loss adjustment expenses	\$ 54,417,740
Other expenses (excluding taxes, licenses and fees)	422,701
Unearned premiums	10,361,015
Ceded reinsurance premiums payable (net of ceding commissions)	(2,114,194)
Remittances and items not allocated	259,283
Provision for reinsurance	116,253
Payable for securities	517,441
Subscriber operating reserve	<u>100,000</u>
Total liabilities	\$ <u>64,080,239</u>
<u>Surplus and Other Funds</u>	
Gross paid in and contributed surplus	\$ 6,278,959
Unassigned funds (surplus)	<u>47,582,583</u>
Surplus as regards policyholders	\$ <u>53,861,540</u>
Total liabilities, surplus and other funds	<u>\$117,941,781</u>

Note: The Reciprocal is exempt from federal, state and local income taxes.

B. Statement of Income

Surplus as regards policyholders increased \$39,518,851 during the eight-year examination period January 1, 2004 through December 31, 2011, detailed as follows:

Underwriting Income

Premiums earned		\$248,117,196
Deductions:		
Losses and loss adjustment expenses incurred	\$148,748,496	
Other underwriting expenses incurred	77,945,163	
Aggregate write-ins for underwriting deductions	<u>1,538,139</u>	
Total underwriting deductions		<u>228,231,798</u>
Net underwriting gain or (loss)		\$ 19,885,398

Investment Income

Net investment income earned	\$ 22,326,666	
Net realized capital gain	<u>2,378,722</u>	
Net investment gain or (loss)		\$ <u>24,705,388</u>

Other Income

Net gain or (loss) from agents' or premium balances charged off	\$(681,384)	
Finance and service charges not included in premiums	0	
Aggregate write-ins for miscellaneous income	<u>(180,785)</u>	
Total other income		\$ <u>(862,169)</u>
Net income before dividends to policyholders and before federal and foreign income taxes		\$ 43,728,617
Dividends to policyholders		<u>0</u>
Net income after dividends to policyholders but before federal and foreign income taxes		\$ 43,728,617
Federal and foreign income taxes incurred		<u>0</u>
Net Income		\$ <u>43,728,617</u>

Surplus as regards policyholders per report on examination as of December 31, 2003			<u>\$14,343,089</u>
	<u>Gains in</u>	<u>Losses in</u>	
	<u>Surplus</u>	<u>Surplus</u>	
Net income	\$43,728,614		
Change in provision for reinsurance		\$ 114,053	
Surplus adjustments paid in		608,180	
Miscellaneous	<u>0</u>	<u>3,487,930</u>	
Total gains and losses	<u>\$43,728,614</u>	<u>\$4,210,163</u>	
Net increase (decrease) in surplus			<u>\$39,518,451</u>
Surplus as regards policyholders per report on examination as of December 31, 2011			<u>\$53,861,540</u>

4. LOSSES AND LOSS ADJUSTMENT EXPENSES

The examination liability for the captioned items of \$54,417,740 is the same as the amount reported by the Reciprocal as of December 31, 2011. The examination analysis was conducted in accordance with generally accepted actuarial principles and practices and was based on statistical information contained in the Reciprocal's internal records and in its filed annual statements.

5. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

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

<u>ITEM</u>	<u>PAGE NO.</u>
<p>A. <u>Reinsurance</u></p> <p>It is recommended that in the future the Reciprocal comply with Statement of Statutory Accounting Principles No. 62 (the successor to Chapter 22 of the National Association of Insurance Commissioners Accounting Practices and Procedures Manual) and ensure that its reinsurance contracts are signed within the period specified.</p> <p>The Reciprocal has complied with this recommendation.</p>	<p>8</p>
<p>B. <u>Abandoned Property Law</u></p> <p>It is recommended that the Reciprocal comply with the New York Abandoned Property Law and file the required reports.</p> <p>The Reciprocal has complied with this recommendation.</p>	<p>12</p>
<p>C. <u>Accounts and Records</u></p> <p>It is recommended that the Reciprocal amend its custodial agreement to include the provisions as provided in Section 2F of this report in order to afford its assets the necessary safeguards and protections.</p> <p>The Reciprocal has complied with this recommendation</p>	<p>8</p>

6. SUMMARY OF COMMENTS AND RECOMMENDATIONS

<u>ITEM</u>	<u>PAGE NO.</u>
A. <u>Management</u>	
(i) <u>Conflict of Interest</u>	
It is recommended that the Reciprocal put the necessary procedures in place to ensure that all of its board members and key employees sign completed conflict of interest statements on an annual basis and retain such statements in its files.	6
It is recommended that the completed and signed conflict of interest statements be provided to the Reciprocal's board of governors, and that the review of such statements be acknowledged in the minutes to the board of governors' meetings.	6
B. <u>Accounts and Records</u>	
(i) <u>Section 307(b) and Regulation 118 Part 89.8</u>	
It is recommended that the Reciprocal require its CPA firm to amend the engagement letter to acknowledge the notification requirements of Section 307(b)(1) of the New York Insurance Law and Part 89.8 of Department Regulation 118.	12
(ii) <u>Department Regulation 118 Part 89.12</u>	
It is recommended that the Reciprocal provide written notification to the superintendent of its selection of an audit committee and any subsequent changes thereto pursuant to the provisions of Part 89.12(e) of Department Regulation 118.	13
C. <u>Risk Management and Internal Controls</u>	
<u>Password Policy</u>	
It is recommended that the Manager develop an automated password change system, which would prompt users to change their password at least quarterly, prevent passwords from being reused, and enable the employees to change their passwords themselves, rather than through the IT Manager.	13

Appointment No. 30632

**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:*

Veronica Duncan Black

as proper person to examine into the affairs of the

NEW YORK MUNICIPAL RECIPROCAL

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

Reciprocal

with such other information as she 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

Appointment No. 30632

*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:*

Veronica Duncan Black

as proper person to examine into the affairs of the

NEW YORK MUNICIPAL RECIPROCAL

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

Reciprocal

with such other information as she 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