

REPORT ON EXAMINATION

OF THE

ONTARIO INSURANCE COMPANY

AS OF

DECEMBER 31, 2008

DATE OF REPORT

NOVEMBER 20, 2009

EXAMINER

SHEIK H. MOHAMED

TABLE OF CONTENTS

| <u>ITEM NO.</u> | | <u>PAGE NO.</u> |
|-----------------|---|-----------------|
| 1. | Scope of examination | 2 |
| 2. | Description of Company | 3 |
| | A. Management | 3 |
| | B. Territory and plan of operation | 5 |
| | C. Reinsurance | 6 |
| | D. Holding company system | 7 |
| | E. Significant operating ratios | 8 |
| 3. | Financial statements | 9 |
| | A. Balance sheet | 9 |
| | B. Underwriting and investment exhibit | 11 |
| 4. | Losses and loss adjustment expenses | 12 |
| 5. | Compliance with prior report on examination | 13 |



STATE OF NEW YORK
INSURANCE DEPARTMENT
25 BEAVER STREET
NEW YORK, NEW YORK 10004

November 20, 2009

Honorable James J. Wrynn
Superintendent of Insurance
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 30375 dated August 14, 2009 attached hereto, I have made an examination into the condition and affairs of Ontario Insurance Company as of December 31, 2008, and submit the following report thereon.

Wherever the designation “the Company” appears herein without qualification, it should be understood to indicate Ontario Insurance Company.

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

The examination was conducted at the Company’s home office located at 28 Canandaigua Street, Shortsville, NY 14548.

1. SCOPE OF EXAMINATION

The Department has performed a single-state examination of Ontario Insurance Company. The previous examination was conducted as of December 31, 2003. This examination covered the five-year period from January 1, 2004 through December 31, 2008. 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 Financial Condition Examiners Handbook of the NAIC:

- Company history
- Accounts and records
- Corporate Records
- Management and control
- Territory and plan of operation
- Loss experience
- Reinsurance
- 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 Ontario Insurance Company was organized in 1877 and reorganized in 1879 for the purpose of transacting business as an assessment co-operative fire insurance association in Ontario County, New York.

On December 23, 1970, a certificate of amendment of the Certificate of Incorporation was approved by this Department changing the name of the Company from Ontario County Patrons Fire Relief Association to the Ontario-Yates Insurance Company.

On April 1, 1995, the Department approved the conversion, pursuant to Section 7305 of the New York Insurance Law, of the Company from an Assessment Co-operative Property/Casualty Insurance Company into an Advanced Premium Co-operative Property/Casualty Insurance Company.

On January 17, 2001, the Company filed a certificate of amendment of the certificate of incorporation of Ontario-Yates Insurance Company under Section 805 of the Business Corporation Law. On January 19, 2001, the Department approved the change of name from Ontario-Yates Insurance Company to Ontario Insurance 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 sixteen members, divided into three groups as nearly equal as possible. The board meets two times during each calendar year, with executive committee meetings held at least twice a year, to comply with Section 6624(b) of the New York Insurance Law. At December 31, 2008, the board of directors was comprised of the following eleven members:

Name and Residence

Kenneth Bersani
Fairport, NY

Principal Business Affiliation

Attorney,
Trevett Cristo Salzer & Andolina P.C.

| <u>Name and Residence</u> | <u>Principal Business Affiliation</u> |
|--|---|
| Bruce Croucher Clifton Springs, NY | Retired School Teacher |
| Maureen A. Datthyn Shortsville, NY | Corporate Secretary & Administrative Assistant, Ontario Insurance Company |
| David Lankford Webster, NY | Realtor, Vice President, Wilmorite Corporation |
| Beverly Marvin Macedon, NY | Underwriter, Ontario Insurance Company |
| Diane Mordue Victor, NY | Branch Manager & Assistant Vice President, Canandaigua National Bank |
| Laura S. Pedersen Stanley, NY | Agriculture, Pedersen Farms |
| Russell Pilato Clifton Springs, NY | Retired School Teacher |
| Paul E. Robinson Farmington, NY | President, Chief Executive Officer, & Treasurer, Ontario Insurance Company |
| Russell L. Williamson Clifton Springs, NY | Senior Loan Officer, Community Bank |
| William C. Wright Farmington, NY | Commissioner, Department of Public Works |

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 has an acceptable record of attendance.

As of December 31, 2008, the principal officers of the Company were as follows:

| <u>Name</u> | <u>Title</u> |
|--------------------|-----------------------|
| Paul E. Robinson | President & Treasurer |
| Maureen A. Datthyn | Secretary |

B. Territory and Plan of Operation

As of December 31, 2008, 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 |
| 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 (inland marine only) |
| 30 | Substantially similar kind |

The Company was also licensed as of December 31, 2008, to accept and cede reinsurance as provided in Section 6606 of the Insurance Law of the State of New York.

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 \$511,990.

The Company underwrites predominantly the homeowners multiple peril, commercial multiple peril, farmowners multiple peril, and fire lines of business, which accounted for 35.9%, 33.0%, 12.2%, and 9.9%, respectively, of the 2008 direct premium writings.

In 2008, the Company wrote through fifty-four licensed agents and two brokers.

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

| <u>Calendar Year</u> | <u>Direct Written Premiums</u> |
|----------------------|--------------------------------|
| 2004 | \$3,842,861 |
| 2005 | \$4,149,741 |
| 2006 | \$4,434,479 |
| 2007 | \$4,514,425 |
| 2008 | \$4,505,099 |

C. Reinsurance

Assumed

The Company does not assume any reinsurance business.

Ceded

The Company has the following ceded reinsurance program in effect at December 31, 2008:

| <u>Treaty</u> | <u>Cession</u> |
|--|---|
| Property | \$900,000 in excess of \$100,000 ultimate net loss in respect of each loss, each risk; limit of \$1,800,000 all risks in aggregate any one occurrence. |
| Property facultative per risk excess of loss | \$250,000 in excess of \$1 million each loss, each risk. |
| Property catastrophe (two layers) | 1) 95% of \$550,000 in excess of \$200,000 ultimate net loss, each loss occurrence. 2) 95% of \$1,750,000 in excess of \$750,000 ultimate net loss, each loss occurrence. |
| Casualty | \$900,000 in excess of \$100,000 ultimate net loss in respect of each loss occurrence. |
| Casualty clash excess of loss | \$1 million in excess of \$1 million ultimate net loss any one loss occurrence. \$1 million in excess of \$2 million ultimate net loss any one loss occurrence, with respect to workers' compensation insurance required by Section 3420(j) of the New York Insurance Law. |

| | |
|--|---|
| Umbrella quota share reinsurance casualty (two layers) | <p>(1) 95% quota share participation of Company's net retained liability up to but not exceeding \$1 million under each policy from each occurrence.</p> <p>(2) 100% quota share participation of Company's net retained insurance liability of \$4 million in excess of \$1 million from each loss occurrence.</p> |
| Aggregate excess of loss property and casualty | When Company's total net losses exceed 77.5% of the net earned premiums during the agreement year, the reinsurer is then liable for up to 90% of \$500,000. |

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 of the Schedule F data reported by the Company in its filed annual statement was found to accurately reflect its reinsurance transactions. Additionally, management has represented that all material ceded reinsurance agreements transfer both underwriting and timing risk as set forth in NAIC Accounting Practices and Procedures Manual, Statement of Statutory Accounting Principles ("SSAP") No. 62. Representations were supported by an attestation from the Company's president (chief executive and chief financial officer) pursuant to the Annual Statement Instructions.

D. Holding Company System

The Company was not a member of any holding company system as of December 31, 2008. The Company was independent with no affiliation or pooling agreements in force at December 31, 2008.

E. Significant Operating Ratios

The following ratios have been computed as of December 31, 2008, based upon the results of this examination:

| | |
|--|-----|
| Net premiums written to surplus as regards policyholders | 49% |
| Liabilities to liquid assets (cash and invested assets less investments in affiliates) | 39% |
| Premiums in course of collection to surplus as regards policyholders | 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 | \$ 9,494,220 | 64.01% |
| Other underwriting expenses incurred | 5,159,547 | 34.78 |
| Net underwriting gain | <u>179,584</u> | <u>1.21</u> |
| Premiums earned | <u>\$14,833,351</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, 2008 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 | \$8,440,176 | \$0 | \$8,440,176 |
| Preferred stocks | 97,619 | 0 | 97,619 |
| Common stocks | 725,707 | 0 | 725,707 |
| Real Estate: Properties occupied by the company | 440,327 | 0 | 440,327 |
| Cash, cash equivalents and short-term investments | 2,000,996 | 0 | 2,000,996 |
| Investment income due and accrued | 114,236 | 0 | 114,236 |
| Uncollected premiums and agents' balances in course of collection | 64,979 | 4,281 | 60,698 |
| Deferred premiums, agents' balances and installments booked but deferred and not yet due | 476,593 | 0 | 476,593 |
| Net deferred tax asset | 420,144 | 242,503 | 177,641 |
| Furniture and equipment, including health care delivery assets | 85,865 | 85,865 | 0 |
| Fair Plan | 64,394 | 170 | 64,224 |
| Cash surrender value life insurance | <u>40,393</u> | <u>0</u> | <u>40,393</u> |
| Total assets | <u>\$12,971,429</u> | <u>\$332,819</u> | <u>\$12,638,610</u> |

Liabilities, Surplus and Other FundsLiabilities

| | |
|---|--------------|
| Losses and loss adjustment expenses | \$1,703,213 |
| Commissions payable, contingent commissions and other similar charges | 269,511 |
| Other expenses (excluding taxes, licenses and fees) | 114,459 |
| Taxes, licenses and fees (excluding federal and foreign income taxes) | 2,508 |
| Current federal and foreign income taxes | 380,945 |
| Unearned premiums | 2,319,591 |
| Advance premium | 82,551 |
| Ceded reinsurance premiums payable (net of ceding commissions) | 68,704 |
| Remittances and items not allocated | <u>5,231</u> |
| Total liabilities | \$4,946,713 |

Surplus and Other Funds

| | |
|--|---------------------|
| Required surplus | \$ 511,990 |
| Unassigned funds (surplus) | <u>7,179,907</u> |
| Surplus as regards policyholders | <u>7,691,897</u> |
| Total liabilities, surplus and other funds | <u>\$12,638,610</u> |

NOTE: The Internal Revenue Service has not performed an audit of the Company's federal income tax returns for any tax year during the examination period. 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. Underwriting and Investment Exhibit

Surplus as regards policyholders increased \$1,330,891 during the five-year examination period January 1, 2004 through December 31, 2008, detailed as follows:

Underwriting Income

| | | |
|--|------------------|-------------------|
| Premiums earned | | \$14,833,351 |
| Deductions: | | |
| Losses and loss adjustment expenses incurred | \$9,494,220 | |
| Other underwriting expenses incurred | <u>5,159,547</u> | |
| Total underwriting deductions | | <u>14,653,767</u> |
| Net underwriting gain or (loss) | | \$ 179,584 |

Investment Income

| | | |
|-------------------------------|---------------|-----------|
| Net investment income earned | \$1,990,137 | |
| Net realized capital gains | <u>52,342</u> | |
| Net investment gain or (loss) | | 2,042,479 |

Other Income

| | | |
|---|-----------------|--------------------|
| Net gain or (loss) from agents' or premium balances charged off | \$ 4,066 | |
| Finance and service charges not included in premiums | 306,974 | |
| Aggregate write-ins for miscellaneous income | <u>(10,127)</u> | |
| Total other income | | <u>300,913</u> |
| Net income before federal and foreign income taxes | | \$2,522,976 |
| Federal and foreign income taxes incurred | | <u>879,188</u> |
| Net income | | <u>\$1,643,788</u> |

Capital and Surplus Account

| | | | |
|--|--------------------|------------------|--------------------|
| Surplus as regards policyholders per report on examination as of December 31, 2003 | | | \$6,361,006 |
| | <u>Gains in</u> | <u>Losses in</u> | |
| | <u>Surplus</u> | <u>Surplus</u> | |
| Net income | \$1,643,788 | | |
| Net unrealized capital gains or losses | | \$327,435 | |
| Change in net deferred income tax | 239,727 | | |
| Change in nonadmitted assets | | 222,250 | |
| Aggregate write-ins for gains and losses in surplus | <u>0</u> | <u>2,939</u> | |
| Total gains or losses in surplus | <u>\$1,883,515</u> | <u>\$552,624</u> | |
| Net increase (decrease) in surplus | | | <u>1,330,891</u> |
| Surplus as regards policyholders per report on examination as of December 31, 2008 | | | <u>\$7,691,897</u> |

4. LOSSES AND LOSS ADJUSTMENT EXPENSES

The examination liability for the captioned items of \$1,703,213 is the same as reported by the Company as of December 31, 2008. The examination analysis was 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 four recommendations as follows (page numbers refer to the prior report):

| <u>ITEM</u> | <u>PAGE NO.</u> |
|--|-----------------|
| A. <u>Reinsurance</u> | |
| i. It was recommended that reinsurance contracts with an ECO clause should include a savings clause that in no event shall coverage be provided to the extent that such coverage is not permitted under New York Law. | 6 |
| The Company has complied with this recommendation. | |
| ii. It was recommended that the Company comply with the requirements of Section 1308(e)(1)(A) of the New York Insurance Law. | 7 |
| The Company has complied with this recommendation. | |
| B. <u>Accounts and Records</u> | |
| i. It was recommended that authorized signatories including additional signatories should be officers of the Company as per Section 6611(a)(4)(C) of the New York Insurance Law. | 10 |
| The Company has complied with this recommendation. | |
| ii. It was recommended that management establish and maintain written documentation supporting the allocation of each expense category to the major expense groups as required by this Department's Regulation No. 30. | 10 |
| The Company has complied with this recommendation. | |

Appointment No 30375

STATE OF NEW YORK
INSURANCE DEPARTMENT

I, Kermitt J. Brooks, Acting Superintendent of Insurance of the State of New York, pursuant to the provisions of the Insurance Law, do hereby appoint:

Sheik Mohamed

as proper person to examine into the affairs of the

Ontario Insurance Company

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

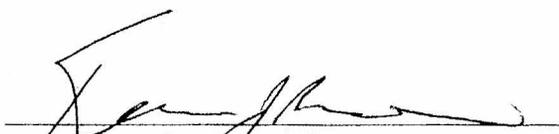
Company

with such other information as he 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 14th day of August 2009




Kermitt J. Brooks
Acting Superintendent of Insurance