

REPORT ON EXAMINATION

OF THE

UNITED FARM FAMILY INSURANCE COMPANY

AS OF

DECEMBER 31, 2011

DATE OF REPORT

JANUARY 18, 2013

EXAMINER

WAYNE LONGMORE

TABLE OF CONTENTS

<u>ITEM NO.</u>		<u>PAGE NO.</u>
1.	Scope of examination	2
2.	Description of Company	3
	A. Management	4
	B. Territory and plan of operation	5
	C. Reinsurance	7
	D. Holding company system	11
	E. Significant operating ratios	16
	F. Accounts and records	16
3.	Financial Statements	17
	A. Balance sheet	17
	B. Statement of income	19
4.	Losses and loss adjustment expenses	20
5.	Compliance with prior report on examination	21
6.	Summary of comments and recommendations	23



NEW YORK STATE
DEPARTMENT *of*
FINANCIAL SERVICES

Andrew M. Cuomo
Governor

Benjamin M. Lawsky
Superintendent

January 18, 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 30834 dated February 21, 2012, attached hereto, I have made an examination into the condition and affairs of United Farm Family Insurance Company 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 United Farm Family 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 344 Route 9W, Glenmont NY, 12077.

1. SCOPE OF EXAMINATION

The Department has performed a group examination of the Company, a multi-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.

The examination of the Company was performed concurrently with the examination of the following insurer: Farm Family Casualty Insurance Company.

This examination was conducted in accordance with the National Association of Insurance Commissioners (“NAIC”) Financial Condition Examiners Handbook (“Handbook”), which requires that we plan and perform the examination to evaluate the financial condition and identify prospective risks of the Company by obtaining information about the Company including corporate governance, identifying and assessing inherent risks within the Company and evaluating system controls and procedures used to mitigate those risks. This examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management’s compliance with Statutory Accounting Principles, annual statement instructions and when applicable, to domestic state statutes.

All financially significant accounts and activities of the Company were considered in accordance with the risk-focused examination process. This examination also included a review and evaluation of the Company’s own control environment assessment. The examiners also relied upon audit work performed by the Company’s independent public accountants when appropriate.

This examination report includes a summary of significant findings for the following items as called for in the Handbook:

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

Accounts and records
 Statutory deposits
 Financial statements
 Summary of recommendations

A review was also made to ascertain what action was taken by the Company with regard to comments and recommendations contained in the prior report on examination.

This report on examination is confined to financial statements and comments on those matters that involve departures from laws, regulations or rules, or that are deemed to require explanation or description.

2. DESCRIPTION OF COMPANY

The Company was incorporated under the laws of the State of New York on February 25, 1988, became licensed and commenced business on January 1, 1989.

Prior to December 2004, Farm Family Life Insurance Company (“FFLIC”) owned 100% of the outstanding shares of stock of the Company. On December 1, 2004, FFLIC transferred all of its outstanding shares of the Company to Farm Family Holdings, Inc. (“FFH”) in exchange for \$3,435,239.

On August 23, 2007, American National Property and Casualty Holding Company, LLC merged into FFH, with FFH being the surviving entity. At the same time FFH changed its name to American National Property & Casualty Holdings, Inc. (“ANPAC Holdings”).

Through an amendment filed in November 1997, the Company amended its charter to increase the par value of its common stock from \$100 per share to \$190 per share. Through an amendment filed in November 2009, the Company amended its charter again to increase the par value of its common stock from \$190 per share to \$350 per share. These two charter amendments were reflected in the Company’s 2009 annual statement and resulted in a \$2,500,000 increase to paid-in capital and a \$2,500,000 decrease to paid-in surplus.

<u>Year</u>	<u>Description</u>	<u>Increase/Decrease</u>	<u>Amount</u>
2007	Beginning gross paid in and contributed surplus		\$7,200,000
2009	Reduction in paid-in surplus	\$2,500,000	
	Total reduction in paid-in surplus		<u>2,500,000</u>
2011	Ending gross paid in and contributed surplus		<u>\$4,700,000</u>

As of December 31, 2011, capital paid in was \$3,500,000 consisting of 10,000 shares of issued and outstanding common shares at \$350 per share. The Company's gross paid in and contributed surplus and unassigned surplus as of December 31, 2011 were \$4,700,000 and \$(331,622) respectively.

Operations of the Company are closely related with those of affiliated property and casualty insurer Farm Family Casualty Insurance Company ("FFCIC") and affiliated company, Farm Family Life Insurance Company ("FFLIC"). All three entities share administrative office space.

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 thirteen or more than twenty-five members. The board met at least four times during each calendar year for the period under examination. At December 31, 2011, the board of directors was comprised of the following thirteen members:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Alexander P. Dowse Sherborn, MA	President, Treasurer & Clerk, C.A. Dowse & Son, Inc.
G. Richard Ferdinandtsen League City, TX	Director, President and Chief Operating Officer, American National Insurance Company
Stephen J. George Gladstone, NJ	Retired self-employed farmer and President, Friendship Business Ventures, LLC
Irwin M. Herz, Jr Galveston, TX	Partner/ Attorney, Greer, Herz & Adams, LLP which serves as general counsel for ANICO
John W. Lincoln Bloomfield, NY	Owns and Operates, Linholm Dairy Farm
A. Ingrid Moody Kemah, TX	Volunteer Worker and former farmer
Ross R. Moody Austin, TX	President, COO and Director, National Western Life Insurance Company
Edward J. Muhl Bonita Springs, FL	Retired Partner, PricewaterhouseCoopers, LLP

Name and ResidencePrincipal Business Affiliation

Gregory V. Ostergren
Springfield, MO

Director, Chairman, President and CEO,
American National Property and Casualty
Company

James E. Pozzi
Galveston, TX

Senior Executive Vice President and Chief
Administrative Officer,
American National Insurance Company

Victoria M. Stanton
Glenmont, NY

Executive Vice President, General Counsel and
Secretary,
Farm Family Life Insurance Company, Farm
Family Casualty Insurance Company and
United Farm Family Insurance Company.

Timothy A. Walsh
West Coxsackie, NY

President and Chief Executive Officer,
Farm Family Life Insurance Company, Farm
Family Casualty Insurance Company and
United Farm Family Insurance Company.

Ronald J. Welch
League City, TX

Senior Executive Vice President, Corporate
Risk Officer and Chief Actuary,
American National 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, 2011, the principal officers of the Company were as follows:

NameTitle

Timothy A. Walsh
Victoria M. Stanton

President and Chief Executive Officer
Executive Vice President, General Counsel and
Secretary

Michele M. Bartkowski

Senior Vice President, Chief Financial Officer
and Treasurer

B. Territory and Plan of Operation

As of December 31, 2011, the Company was licensed to write business in four states.

As of the examination date, the Company was authorized to transact the kinds of insurance as defined in the following numbered paragraphs of Section 1113(a) of the New York Insurance Law:

<u>Paragraph</u>	<u>Line of Business</u>
4	Fire
5	Miscellaneous property
6	Water damage
7	Burglary and theft
8	Glass
9	Boiler and machinery
10	Elevator
11	Animal
12	Collision
13	Personal injury liability
14	Property damage liability
15	Workers' compensation and employers' liability
16	Fidelity and surety
19	Motor vehicle and aircraft physical damage
20	Marine and inland marine
21	Marine protection and indemnity
26(B)	Motor vehicle lessee/debtor gap insurance

The Company is also authorized to transact such workers' compensation insurance as may be incident to coverages contemplated under paragraphs 20 and 21 of Section 1113(a), including insurances described in the Longshoremen's and Harbor Workers' Compensation Act (Public Law No. 803, 69 Cong. as amended; 33 USC Section 901 et seq. as amended).

Based on the lines of business for which the Company is licensed and the Company's current capital structure, and pursuant to the requirements of Articles 13 and 41 of the New York Insurance Law, the Company is required to maintain a minimum surplus to policyholders in the amount of \$4,000,000.

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

<u>Calendar Year</u>	<u>New York State</u>	<u>Total United States</u>	<u>Premiums Written in NYS as % of US Premium</u>
2007	0	\$19,809,545	0.00%
2008	0	\$20,303,601	0.00%
2009	0	\$19,719,507	0.00%
2010	0	\$21,123,536	0.00%
2011	\$158,110	\$21,363,724	0.74%

The largest lines of business were fire and allied lines which made up 27.59% of the Company's 2011 direct written business. At December 31, 2011, the Company wrote business primarily through career (exclusive) agents.

C. Reinsurance

Assumed reinsurance

Assumed reinsurance accounted for 25.3% of the Company's gross premium written at December 31, 2011. Approximately 99.98% of the Company's assumed premium is attributable to the pooling agreement with the Company's affiliate, FFCIC. The remaining .02% of the Company's assumed premiums are from certain mandated pools and associations. During the period covered by this examination, the Company's assumed reinsurance has decreased since the last examination. The Company utilizes reinsurance accounting as defined in Statement of Statutory Accounting Principle ("SSAP") No. 62R for all of its assumed reinsurance business.

Effective January 1, 2004 the Company entered into a pooling agreement with FFCIC. Under the terms of the agreement, UFFIC cedes 100% of its assumed and direct business to the FFCIC, net of any external reinsurance. FFCIC then retrocedes 2% of its net direct and assumed business to the Company. The pooling agreement allocation percentages have remained unchanged since inception, however, the agreement was amended effective March 5, 2010 modifying the terms of the provision relating to cash calls. Both the agreement and subsequent amendment were non-objected to by the Department in letters dated June 29, 2004 and March 5, 2010 pursuant to the requirements of Section 1505(d)(2) of the New York Insurance Law.

Ceded reinsurance

The Company has structured its ceded reinsurance program as of December 31, 2011, as follows:

Type of Treaty

Cession

Excess Multiple Line
100% Authorized

Property Business: \$5 million excess \$1 million any one risk, each loss; limit \$10 million per occurrence.

Terrorism: \$5 million excess \$1 million any one risk each loss; limit \$10 million in all during the term of the contract and any runoff period.

Type of TreatyCession

Casualty Business: \$5 million excess \$1 million per occurrence (\$6 million as respects any one occurrence involving at least one \$2 million per occurrence policy issued by the Company in accordance with this contract). As respects all Workers Compensation losses arising out of acts of terrorism \$5 million excess \$1 million; limit \$20 million as respects all Workers Compensation losses during the term of the contract and any runoff period.

Pollution Liability: \$5 million excess \$1 million any one policy, each pollution incident; limit \$5 million as respects all losses arising out of all pollution liability policies involved in all pollution incidents reported during the term of this contract and any runoff period.

Property Excess per Risk
70% Authorized

\$9 million excess \$6 million any one risk, each loss any one loss occurrence; limit \$36 million during the term of the contract (or during any runoff period). Limit of \$9 million in all during the term of the contract or any runoff period for losses arising out of acts of terrorism or toxic mold.

Excess Casualty Clash (3 layers)
Layer 1
90% Authorized

\$4 million excess \$6 million ultimate net loss per occurrence; limit \$8 million during the term of the contract (or during any runoff period). Limit of \$4 million in all during the term of the contract or any runoff period for all Workers Compensation losses arising out of acts of terrorism; limit of \$4 million in all during the term of the contract or any runoff period for all toxic mold related losses.

Layer 2
93% Authorized

\$20 million excess \$10 million ultimate net loss per occurrence; limit \$40 million during the term of the contract (or during any runoff period). Limit of \$20 million in all during the term of the contract or any runoff period for all Workers Compensation losses arising out of acts of terrorism. Limit of \$20 million in all during the term of the contract or any runoff period for all toxic mold related losses.

Layer 3
93.5% Authorized

\$20 million excess \$30 million ultimate net loss per occurrence; limit \$40 million during the term of the contract (or during any runoff period). Limit of \$20 million in all during the term of the contract or any runoff period for all Workers Compensation losses arising out of acts of terrorism. Limit of \$20 million in

Type of TreatyCession

all during the term of the contract or any runoff period for all toxic mold related losses.

(Note: For all layers above as respects any one occurrence involving at least one \$2 million per occurrence policy issued by the Company in accordance with the contract the Company's retention for each excess layer shall be increased by \$1 million).

Property Catastrophe Excess (5 layers)Layer 1

65.5% Authorized

97.5% of \$30 million in excess of \$10 million ultimate net loss each loss occurrence (two or more risks involved); limit \$60 million during the term of the contract.

Layer 2

66% Authorized

97.5% of \$30 million in excess of \$40 million ultimate net loss each loss occurrence (two or more risks involved); limit \$60 million during the term of the contract.

Layer 3

67.38% Authorized

97.5% of \$50 million in excess of \$70 million ultimate net loss each loss occurrence (two or more risks involved); limit \$100 million during the term of the contract.

Layer 4

59.58% Authorized

97.5% of \$120 million in excess of \$120 million ultimate net loss each loss occurrence (two or more risks involved); limit \$240 million during the term of the contract.

Layer 5

52.68% Authorized

97.5% of \$260 million in excess of \$240 million ultimate net loss each loss occurrence (two or more risks involved); limit \$520 million during the term of the contract.

Earthquake Property Catastrophe Excess of loss

55% Authorized

97.5% of \$50 million in excess of \$25 million ultimate net loss each loss occurrence (two or more risks involved); limit \$100 million during the term of the contract.

Aggregate Property Catastrophe Excess

43.583% Authorized

63.5833% of \$30 million in excess of \$90 million aggregate subject ultimate net loss arising out of loss occurrence commencing during the term of the contract (two or more risks involved). Subject ultimate net loss arising from loss occurrences commencing 1/1/2011 through 2/15/2011 shall not contribute more than \$11,250,000 towards the Company's aggregate retention of \$90 million.

Type of TreatyCessionCasualty Facultative Master Certificate

\$10 million in excess of \$5 million, each loss occurrence or offense.

Umbrella Facultative contract - covering policies classified as personal, farm, and commercial umbrella liability.

100% Authorized

Property Facultative Excess of Loss – agreement expired 4/1/12

\$15 million excess of \$15 million each risk, each occurrence in excess of the Company's net and treaty retention on each risk, each occurrence.

100% Authorized

Employment Practices Liability Insurance Coverage Quota share treaty (“EPL”)

100% of the gross liability of the Company (including defense costs) under the Employment Practices Liability Insurance Coverage Endorsement, up to a maximum limit of \$250,000 each wrongful employment act, subject to an annual aggregate limit in the policy not to exceed \$250,000. In the event the reinsurer accepts a referral with an EPL coverage in excess of \$250,000, each wrongful employment act, such limit shall be covered up to a maximum limit of \$1 million each wrongful employment act, subject to an annual aggregate limit on the policy not to exceed \$1 million.

100% Authorized

Boiler and Machinery quota share contract (Businessowners, Special Farm Package “10” and Commercial Package policies that include an equipment breakdown coverage endorsement)

100% of \$25,000,000 any one Accident, any one policy.

100% Authorized

Boiler and Machinery quota share (Homeowners)

100% of \$50,000 any one policy, any one Accident.

100% Authorized

Since the previous examination, the Company's net retention has remained at \$1 million on property and casualty business.

It is the Company's policy to obtain the appropriate collateral for its cessions to unauthorized reinsurers. Letters of credit obtained by the Company were reviewed for compliance with Department Regulations 133. No significant exceptions were noted.

All significant ceded reinsurance agreements in effect as of the examination date were reviewed for the required clauses.

Insolvency Clause

The insolvency clauses in the Company's ceding agreements make reference to a novation. Department Circular Letter No. 5 (1988) states, in part, the following in reference to a novation:

“Any references to such an event in the reinsurance agreement should indicate that, prior to the implementation of a novation, the certificate of assumption on New York risks would have to be approved by the Superintendent. . .”

It is recommended that the Company include the above referenced language from Department Circular Letter No. 5 (1988) in all reinsurance contracts which make reference to a novation.

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 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. 62R.

D. Holding Company System

The Company is a wholly-owned subsidiary of ANPAC Holdings. All of the outstanding common stock of ANPAC Holdings is directly owned by American National Insurance Company (“ANICO”), whereas all the outstanding preferred stock is owned by Comprehensive Investment Services, Inc., an investment company that is wholly-owned by ANICO.

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

The following is a chart of the holding company system at December 31, 2011:

- American National Insurance Company (TX) 1.
 - American National County Mutual Ins. Company (TX) 2.
 - American National Property & Casualty Holdings, Inc. (DE)
 - Farm Family Casualty Insurance Company (NY)**
 - Farm Family Life Insurance Company (NY)
 - United Farm Family Insurance Company (NY)**
 - Rural Agency and Brokerage, Inc. (NY)
 - Rural Agency and Brokerage of New Hampshire, Inc. (NH)
 - American National Property & Casualty Company (MO)
 - American National General Insurance Company (MO)
 - American National Ins. Service Company (MO)
 - ANPAC Louisiana Ins. Company (LA)
 - Pacific Property & Casualty Company (CA)
 - ANPAC Lloyds Ins. Management, Inc. (TX)
 - American National Lloyds Insurance Company (TX) 3.
 - American National Administrators, Inc. (TX)
 - American National Life Holdings, Inc. (NV)
 - Garden State Life Ins. Company (TX)
 - American National Life Insurance Co. of Texas (TX)
 - American National Life Insurance Co. of New York (NY)
 - Standard Life & Accident Insurance Company (TX)
 - Standard Plus, Inc. (TX)
 - Alternative Benefit Management, Inc. (NV)
 - Comprehensive Investment Services, Inc. (NV)
 - American National Registered Investment Advisor (TX)
 - ANICO Financial Services, Inc. (TX)
 - ANTAC, Inc. (NV)
 - Eagle 99, Inc. (NV)
 - ANDV 97, Inc. (TX)
 - ANIND TX, Inc. (TX)
 - ANREINV, Inc. (TX)
 - ANREM Corporation (TX)
 - ANH2O, Inc. (TX)
 - South Shore Harbour Development, Ltd. (TX) 4.
 - Harbour Title Company (TX) 5.

1. 22.95% owned by the Moody Foundation and 37.07% owned by the Libbie S. Moody Trust
2. Not a subsidiary company, but managed by American National Insurance Company
3. Not a subsidiary company, but managed by ANPAC Lloyds Insurance Management, Inc.
4. Not a subsidiary, but a partnership between ANREM Corporation (5% general partnership interest) and ANTAC, Inc. (95% limited partnership interest)
5. 50% owned by South Shore Harbour Development, Ltd

At December 31, 2011, the Company was party to the following noteworthy agreements with other members of its holding company system:

Net Pooling Reinsurance Agreement

Refer to section 2C. of this report for a description of the Net Pooling Reinsurance Agreement between the Company and Farm Family Casualty Insurance Company.

Service Agreement with Farm Family Casualty Insurance Company

Effective July 25, 1988, the Farm Family Mutual Insurance Company (predecessor in interest to the Farm Family Casualty Insurance Company) entered into a service agreement with the Company. The agreement provides that FFCIC will perform certain administrative and special services for the Company and allows the Company to make use of FFCIC's facilities. The Company reimburses FFCIC for all directly allocable expenses, reasonably and equitably determined to be attributable to the Company, plus a reasonable overhead charge determined periodically by the parties. The review of the allocation of expenses between the parties revealed that the charges are reasonable and in accordance with the requirements of Department Regulation No. 30.

The agreement was filed with this Department pursuant to Section 1505(d) of the New York Insurance Law and was non-disapproved.

Amended and Restated Investment Advisory Agreement with ANICO

The Company and FFCIC entered into an investment advisory agreement with ANICO dated as of August 1, 2001. That agreement was amended and restated effective November 7, 2006, and March 11, 2010. Pursuant to the terms of the March 11, 2010 amended and restated agreement, ANICO shall act as the investment adviser and shall manage their investment portfolios in compliance with the laws and regulations of the State of New York. The agreement further states that the performance of services by ANICO as adviser pursuant to the agreement shall in no way impair the absolute control of the business and operations of FFCIC or UFFIC by their respective Boards of Directors.

This amended and restated agreement was filed with the Department pursuant to Section 1505(d) of the New York Insurance Law and was non-disapproved by the Department.

Amended and Restated Mortgage Loan and Real Estate Investment Services Agreement

The Company originally entered into this mortgage loan and real estate investment services agreement with FFCIC and ANICO effective June 1, 2001. Under the terms of the amended and restated agreement, effective March 11, 2010, ANICO agrees to solicit and underwrite proposed mortgage loans deemed by ANICO to be suitable mortgage loan investments for the Company and FFCIC and consistent with an Investment Plan approved by Company and FFCIC's Board of Directors.

The amended and restated agreement was filed with the Department pursuant to Section 1505(d) of the New York Insurance Law and was non-disapproved by the Department.

Tax Payment Allocation Agreement

The Company participates in a tax payment allocation agreement with its ultimate parent, ANICO and American National Property & Casualty Holdings, Inc. for taxable years beginning January 1, 2008. This agreement provides that the tax charge or refund to the Company shall be the amount the Company would have paid or received if it had filed on a separate return basis with the Internal Revenue Service. The review of the agreement revealed that it is in substantial compliance with Department Circular Letter No. 33 (1979).

The agreement was filed with the Department pursuant to Section 1505(d) of the New York Insurance Law and was non-disapproved by the Department.

Renewal Note with American National Property & Casualty Holdings, Inc (f/k/a Farm Family Holdings, Inc.)

Effective December 31, 2011, the Company entered into a renewal note with its immediate parent, note holder ANPAC Holdings for a \$2 million (principal amount), revolving line of credit. Under the terms of the Note, the Company has agreed to pay ANPAC Holdings: (i) an annual fee of 0.125% of the face amount, provided that the annual fee for December 31, 2013 shall be prorated in recognition of the maturity date of July 1, 2014; and (ii) a fee calculated and accrued monthly, and paid at the end of each calendar quarter, equal to an annualized one-quarter percent (0.25%) of the difference between the face amount and the amount of principal outstanding.

The renewal note was filed with the Department pursuant to Section 1505(d) of the New York Insurance Law and was non-disapproved by the Department.

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	92%
Liabilities to liquid assets (cash and invested assets less investments in affiliates)	72%
Premiums in course of collection to surplus as regards policyholders	17%

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	\$28,768,433	78.36%
Other underwriting expenses incurred	9,987,078	27.20
Net underwriting loss	<u>(2,040,409)</u>	<u>(5.56)</u>
Premiums earned	<u>\$36,715,102</u>	<u>100.00%</u>

F. Accounts and Records

Bank Signatories

The previous report on examination included the following recommendation:

It is recommended that in the future the Company update in a timely manner and maintain all signatory cards for all of its bank accounts in order that check signing authority is given only to the signatories approved by the board of directors.

During the current review it was noted that the above recommendation was not fully complied with. In response to this observation management indicated agreement that the signature cards, including applicable titles were not updated in a timely manner. They further indicated that they are currently completing a full documentation review for all banks which was expected to be completed shortly.

It is recommended that the Company update in a timely manner all signatory cards for all of its bank accounts to reflect changes in authorizations approved by the Board.

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:

<u>Assets</u>	<u>Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>
Bonds	\$13,831,941	\$ 0	\$13,831,941
Cash, cash equivalents and short-term investments	4,340,451		4,340,451
Investment income due and accrued	181,321		181,321
Uncollected premiums and agents' balances in the course of collection	1,407,126	57,177	1,349,949
Deferred premiums, agents' balances and installments booked but deferred and not yet due	4,254,821	5,741	4,249,080
Amounts recoverable from reinsurers	1,021,934		1,021,934
Current federal and foreign income tax recoverable and interest thereon	3,033,192	3,033,192	0
Net deferred tax asset	1,154,771	1,154,771	0
Receivables from parent, subsidiaries and affiliates	359,341		359,341
Aggregate write-ins for other than invested assets	<u>13,079</u>	<u>15,766</u>	<u>(2,687)</u>
Total assets	<u>\$29,597,977</u>	<u>\$4,266,647</u>	<u>\$25,331,330</u>

Liabilities, surplus and other fundsLiabilities

Losses and loss adjustment expenses	\$ 9,453,256
Reinsurance payable on paid losses and loss adjustment expenses	532,763
Commissions payable, contingent commissions and other similar charges	72,802
Other expenses (excluding taxes, licenses and fees)	138,059
Taxes, licenses and fees (excluding federal and foreign income taxes)	110,113
Unearned premiums	3,596,769
Advance premium	165,699
Ceded reinsurance premiums payable (net of ceding commissions)	3,488,800
Remittances and items not allocated	(149,011)
Aggregate write-ins for liabilities	<u>53,702</u>
Total liabilities	\$17,462,952

Surplus and other funds

Common capital stock	\$3,500,000
Gross paid in and contributed surplus	4,700,000
Unassigned funds (surplus)	<u>(331,622)</u>
Surplus as regards policyholders	<u>7,868,378</u>
Total liabilities, surplus and other funds	<u>\$25,331,330</u>

Note: The Internal Revenue Service has not completed its audits of the Company's consolidated 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. Audits covering tax years 2006 through 2008 are currently under examination. The Internal Revenue Service has not yet begun to audit tax returns covering tax years 2009 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 \$1,342,933 during the five-year examination period January 1, 2007 through December 31, 2011, detailed as follows:

Underwriting Income

Premiums earned		\$ 36,715,102
Deductions:		
Losses and loss adjustment expenses incurred	\$28,768,433	
Other underwriting expenses incurred	<u>9,987,078</u>	
Total underwriting deductions		<u>38,755,511</u>
Net underwriting gain or (loss)		\$ (2,040,409)

Investment Income

Net investment income earned	\$ 3,168,867	
Net realized capital gain	<u>0</u>	
Net investment gain or (loss)		3,168,867

Other Income

Net gain or (loss) from agents' or premium balances charged off	\$ (116,063)	
Finance and service charges not included in premiums	264,341	
Aggregate write-ins for miscellaneous income	<u>1,289</u>	
Total other income		<u>149,567</u>
Net income before federal and foreign income taxes		\$ <u>1,278,025</u>
Federal and foreign income taxes incurred		<u>(189,010)</u>
Net income		\$ <u>1,467,035</u>

Surplus as regards policyholders per report on examination as of December 31, 2006			\$6,525,445
	<u>Gains in Surplus</u>	<u>Losses in Surplus</u>	
Net income	\$1,467,035		
Change in net deferred income tax		\$ 633,791	
Change in non-admitted assets	466,384		
Cumulative effect of changes in accounting principles	43,305		
Capital changes paid in	2,500,000		
Surplus adjustments paid in	<u>0</u>	<u>2,500,000</u>	
Total gains or losses in surplus	<u>\$4,476,724</u>	<u>\$3,133,791</u>	
Net increase (decrease) in surplus			<u>1,342,933</u>
Surplus as regards policyholders per report on examination as of December 31, 2011			<u>\$7,868,378</u>

4. LOSSES AND LOSS ADJUSTMENT EXPENSES

The examination liability for the captioned items of \$9,453,256 is the same as reported by the Company 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 Company's internal records and in its filed annual statements.

5. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

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

<u>ITEM</u>	<u>PAGE NO.</u>
A. <u>Accounts and Records</u>	
i. <u>Contract with KPMG, LLP</u>	
It was recommended that the Company ensure that the contract with its CPA firm comply with the requirements of Department Regulations 118 and 152.	16
A review of the contracts provided for the examination period revealed that the 2010 contract was not in full compliance with the above listed requirements. It should be noted that the contract for 2011 was reviewed and was in substantial compliance with the above requirements. No repeat recommendation is being made.	
ii. <u>Custodian Agreement</u>	
It was recommended that the Company amend its custodian agreement to include all the protective covenants and provisions in order to comply with the requirements set forth in the NAIC Financial Condition Examiners Handbook and to Department guidelines.	17
The Company has complied with this recommendation.	
iii. <u>Advance Premiums</u>	
It was recommended that the Company develop the reporting capability to accurately identify "Advance premiums" and report the amount as a liability in the Annual Statement in accordance with SSAP No. 53.	17
The Company has complied with this recommendation.	
iv. <u>Uncollected Premiums Aging Report</u>	
It was again recommended that the Company develop reports that will clearly show the aging status of all uncollected premium balances.	18
The Company has complied with this recommendation.	
It was further recommended that the Company periodically review system generated reports for accuracy.	18
The Company has complied with this recommendation.	

ITEMPAGE NO.

- v. Uncollected Premiums – Deferred Premiums Report
- It was again recommended that the Company develop reports to accurately identify the uncollected premiums as either Premiums in course of collection or deferred premiums, including the non-admitted amounts. 18
- The Company has complied with this recommendation.
- vi. Bank Signatories
- It was recommended that in the future the Company updates in a timely manner and maintains all signatory cards for all of its bank accounts in order that check signing authority is given only to the signatories approved by the board of directors. 19
- The Company has not complied with this recommendation. A similar comment is made in this report.
- vii. Fidelity Bond
- It was recommended that the Company maintain fidelity bond coverage that meets the minimum suggested amounts as set forth in the NAIC Financial Condition Examiners Handbook. 20
- The Company has complied with this recommendation.
- viii. Directors' & Officers' Indemnification Policy
- It was recommended that the Company comply with the required retention and coinsurance percentages stipulated in Department Regulation 110. 20
- The Company has complied with this recommendation.
- B. Information System Control Evaluation
- i. Contingency Planning
- It was recommended that the Company place a high priority on the implementation of a comprehensive corporate business contingency plan that is kept current, based on a business impact analysis, tested, and that addresses all significant business activities. 21
- The Company has complied with this recommendation.

6. SUMMARY OF COMMENTS AND RECOMMENDATIONS

<u>ITEM</u>		<u>PAGE NO.</u>
A.	<u>Reinsurance</u> It is recommended that the Company include the above referenced language from Department Circular Letter No. 5 (1988) in all reinsurance contracts which make reference to a novation.	11
B.	<u>Accounts and Records</u> It is recommended that the Company update in a timely manner all signatory cards for all of its bank accounts to reflect changes in authorizations approved by the Board.	16

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:

Wayne Longmore

as a proper person to examine the affairs of the

UNITED FARM FAMILY 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 my name
and affixed the official Seal of the Department
at the City of New York*

this 21st day of February, 2012

*BENJAMIN M. LAWSKY
Superintendent of Financial Services*

By:



*Jean Marie Cho
Deputy Superintendent*

