REPORT ON EXAMINATION

OF

ALLEGANY CO-OPERATIVE INSURANCE COMPANY

AS OF

DECEMBER 31, 2016

DATE OF REPORT	MARCH 16, 2018
EXAMINER	SUSAN WEIJOLA

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NEW YORK STATE
DEPARTMENT of
FINANCIAL SERVICES

Andrew M. Cuomo
Governor

Maria T. Vullo
Superintendent

March 16, 2018

Honorable Maria T. Vullo
Superintendent
New York State Department of Financial Services
Albany, New York 12257

Madam:

Pursuant to the requirements of the New York Insurance Law, and in compliance with the instructions contained in Appointment Number 31673 dated October 16, 2017, attached hereto, I have made an examination into the condition and affairs of Allegany Co-operative Insurance Company as of December 31, 2016, and submit the following report thereon.

Wherever the designation “the Company” appears herein without qualification, it should be understood to indicate Allegany Co-operative 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 9 North Branch Road, Cuba, NY 14727.

1. SCOPE OF EXAMINATON

The Department has performed an examination of the Company, a single-state insurer. The previous examination was conducted as of December 31, 2011. This examination covered the five-year period from January 1, 2012 through December 31, 2016. Transactions occurring subsequent to this period were reviewed where deemed appropriate by the examiner.

New York was the lead state of the Allegany Co-op Conemaugh Valley Group. The examination was performed concurrently with the examination of Conemaugh Valley Mutual Insurance Company. The other state participating in this examination was Pennsylvania.

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 current and prospective risks of the Company by obtaining information about the Company including corporate governance, identifying and assessing inherent risks within the Company and evaluating system controls and procedures used to mitigate those risks. This examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management's compliance with New York Laws, statutory accounting principles, and annual statement instructions.

This examination report includes, but is not limited to, the following:

Company history
Management and control
Territory and plan of operation
Affiliated group
Reinsurance
Loss review and analysis
Financial statement presentation
Significant subsequent events
Summary of recommendations

A review was also made to ascertain what action was taken by the Company with regards 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

Allegany Co-operative Insurance Company was incorporated under the laws of the State of New York on April 15, 1887 as the Allegany County Farmers' Co-operative Fire Insurance Company for the purpose of transacting business as an assessment co-operative fire insurance company in Allegany County, New York. It became licensed on April 3, 1887 and commenced business on April 15, 1887. A certificate issued by this Department on July 19, 1971 permitted the Company to change its name to Allegany Co-operative Insurance Company.

During 2007, the policyholders of Allegany Co-operative Insurance Company approved the conversion of the Company to an advance premium co-operative and the subsequent merger of the Company with Monroe Co-op Insurance Company of Rochester, NY ("Monroe"). On October 1, 2007, the merger between the Company and Monroe was finalized with the Company as the surviving entity.

On December 11, 2007, the Company purchased a surplus note totaling $1,000,000 issued by Conemaugh Valley Mutual Insurance Company of Johnstown, Pennsylvania ("CVMIC"). CVMIC is an insurance company licensed in Pennsylvania that provides property and liability coverage in that state.

A. Corporate Governance

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 fifteen members. The board meets five times during each calendar year. At December 31, 2016, the board of directors was comprised of the following eleven members:

Name and Residence	Principal Business Affiliation
Donald G. Bennett Pittsford, NY	Chief Financial Officer, Art Craft Optical Company
Rae A. Clark Jr. Rochester, NY	Attorney, Sutton, DeLeeuw, Clark & Darcy, PLLC
Marcia J. Davies Freedom, NY	Retired
Edward L. Gilbert Rushford, NY	Dairy farmer and insurance agent, Gilbert Insurance Agency
Kevin O. Harris Wellsville, NY	Account Manager, LaForge Disposal Service
Erland E. Kailbourne Mendon, NY	Chairman, Albany International Corp.
Brian H. Lehman Johnstown, PA	Executive Vice President, Chief Financial Officer and Secretary, Reliance Savings Bank
Matthew F. Minor Brockport, NY	Senior Loan Officer, Farm Credit East
Keith W. Saylor Johnstown, PA	Supervisor, Richland Township
Rodney R. Stettner Spencerport, NY	Farmer
Duane A. Vaclavik Fillmore, NY	Retired Chief Executive Officer, Great Valley Federal Credit Union

As of December 31, 2016, the principal officers of the Company were as follows:

Name	Title
Byron K. Long	President and Chief Executive Officer
Marcia J. Davies	Secretary
Holly A. Thropp	Treasurer and Chief Financial Officer
Sarah D. Zulauf	Vice President
Melanie K. Stam	Vice President

B. Territory and Plan of Operation

As of December 31, 2016, 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 (inland only)

Based upon 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 $950,000.

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

Calendar Year	Direct Premiums	Assumed Premiums	Total Gross Premiums
2012	$13,526,222	$1,721,634	$15,247,856
2013	$13,702,916	$2,130,650	$15,833,566
2014	$14,203,755	$2,651,904	$16,855,659
2015	$13,807,649	$2,764,966	$16,572,615
2016	$13,933,532	$2,781,142	$16,714,674

The Company's predominant lines of business are commercial multiple peril, homeowners, fire, and farm owners, which accounted for 42%, 38%, 8.9% and 8.8% respectively, of the Company's 2016 direct written business. The Company offers its products to rural and urban markets throughout New York State except for the counties that make up New York City. Its products are sold exclusively through a group of approximately 250 independent agents and are concentrated in Erie, Suffolk and Monroe counties.

Assumed business accounted for 17% of the Company's gross premium written at December 31, 2016. This consists mainly of business assumed from its affiliate (96%), with the remainder assumed from various mandated pools. During the period covered by this examination, the Company's assumed reinsurance business increased by $863,181 or 45% since the last examination.

C. Reinsurance Ceded

Intercompany Pooling Agreement

Effective January 1, 2009, the Company entered into a quota share reinsurance agreement with its affiliate CVMIC, whereby CVMIC cedes 100% of its direct and assumed business to the Company net of external reinsurance. The Company pays CVMIC its share of losses, loss adjustment expense, and extra contractual obligations in excess of policy limits covered under the agreement subject to a limit of $250,000 each risk, each individual loss, property, per occurrence; casualty losses are subject to a maximum of $2,500,000 for each and every loss occurrence. The Company then retrocedes 11% of its net business written or assumed to CVMIC. Effective December 31, 2014, the cession was increased to 12%. This change was approved by the Department on December 3, 2013.

CVMIC pays the Company its share of losses, loss adjustment expense, and extra contractual obligations in excess of the policy limits covered under the contract subject to a limit of $30,000 (12% of a maximum of $250,000) each risk, each individual loss, property, per occurrence; casualty losses are subject to a maximum of $300,000 for each and every loss occurrence.

The agreement was non-objected to by the Department July 27, 2009. At December 31, 2016, the Company ceded $1,823,781 in written premiums to CVMIC and assumed $2,677,924 from CVMIC. Because the companies are not authorized reinsurers, total liabilities resulting from the affiliation are securitized by funds held by the respective companies.

Ceded Reinsurance Program

The Company has structured its ceded reinsurance program as follows:

Type of Treaty	Cession
Property Casualty Combination Excess of Loss	Property – $750,000 excess $250,000 each loss, each risk subject to a limit of $2,000,000 each loss occurrence; Casualty – Ultimate net loss over and above an initial ultimate net loss of $250,000 each loss occurrence subject to a limit of $750,000 each loss occurrence; Casualty and property combined – In the event of a loss occurrence involving at least one casualty and one property policy, ultimate over and above an initial ultimate net loss of $250,000 each loss occurrence subject to a limit of $250,000 each loss occurrence.
Casualty Clash Excess of Loss	$2,000,000 excess $1,000,000 each loss occurrence. With respect to workers' compensation insurance required by subsection (j) of Section 3420 of the New York State Insurance Law. No payment shall be made unless the Company has first sustained an ultimate net loss in excess of $3,000,000.

Type of Treaty	Cession
Property Catastrophe Excess of Loss Layer 1	$2,500,000 excess of $500,000 each loss occurrence (involving three or more risks).
Layer 2	100% excess of $3,000,000 each loss occurrence (involving three or more risks).
Property Facultative per Risk Excess of Loss	Ultimate net loss over and above an initial ultimate net loss of $1,000,000 each loss, each risk subject to a limit of $2,000,000 each loss, each risk.
Casualty Facultative Excess of Loss	Ultimate net loss over and above an initial ultimate net loss of $1,000,000 each loss occurrence, each policy subject to an annual aggregate limit of $2,000,000 inclusive of loss adjustment expense during the term of the contract for all acts of terrorism covered by the contract.
Special Casualty Excess of Loss	$500,000 excess $500,000 each loss occurrence.
Equipment Breakdown Quota Share	100% of the Company’s ultimate net retained liability. Cessions shall not exceed $15,000,000 on any one risk.

The Company also has property facultative coverage available by special acceptance.

All reinsurance, except pooling transactions, was ceded to authorized or certified reinsurers.

Reinsurance agreements with affiliates were reviewed for compliance with Article 15 of the New York Insurance Law. It was noted that the affiliated reinsurance agreement was filed with the Department pursuant to the provisions of Section 1505(d)(2) of the New York Insurance Law.

All significant ceded reinsurance agreements in effect as of the examination date were reviewed and found to contain the required clauses, including an insolvency clause meeting the requirements of Section 1308 of the New York Insurance Law.

Examination review found that the Schedule F data reported by the Company in its filed annual statement accurately reflected its reinsurance transactions. Additionally, management has represented that all material ceded reinsurance agreements transfer both underwriting and timing risk as set forth in SSAP No. 62R. Representations were supported by 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. Affiliated Group

The Company is a member of the Allegany Co-op Conemaugh Valley Group. The Company is affiliated with CVMIC through the purchase of CVMIC’s $1,000,000 surplus note, quota share reinsurance agreements, an expense sharing agreement, and an affiliation agreement between the two companies. The Company and CVMIC have a common President and shared directors. Both companies in the group are controlled by a common board of directors; however, due to their corporate charters, they report independently of each other and maintain separate legal identities.

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.

Affiliated Agreements

At December 31, 2016, the Company was party to the following agreements with its affiliate:

Amended and Restated Affiliation Agreement

Effective December 11, 2007 the Company entered into an affiliation agreement with CVMIC. The agreement calls for CVMIC to enter into expense sharing and reinsurance agreements with the Company; and for the Company to advance an amount not to exceed $1,000,000 to CVMIC at the effective date of the affiliation.

Expense Sharing Agreement

Effective December 11, 2007, the Company entered into an expense sharing agreement with CVMIC. The agreement provides for the sharing of non-insurance related and specifically identified expenses including director fees, legal and audit fees, commissions, boards, bureaus, printing, stationery and other out of pocket expenses for goods and services incurred for the benefit of either company and not related to insurance contracts or the administration of insurance business. At December 31, 2016, the Company reimbursed $124,964 to CVMIC. The agreement was filed with this Department pursuant to Section 1505 of the New York Insurance Law.

E. Significant Ratios

The Company's operating ratios, computed as of December 31, 2016, fall within the benchmark ranges set forth in the Insurance Regulatory Information System of the National Association of Insurance Commissioners.

Operating Ratios	Result
Net premiums written to policyholders' surplus	39%
Adjusted liabilities to liquid assets	42%
Two-year overall operating	94%

Underwriting Ratios

The underwriting ratios presented below are on an earned/incurred basis and encompass the five-year period covered by this examination:

	Amounts	Ratio
Losses and loss adjustment expenses incurred	$35,674,459	54.32%
Other underwriting expenses incurred	25,427,522	38.71%
Net underwriting gain	4,578,446	6.97%
Premiums earned	$65,680,426	100.00%

The Company's reported risk based capital score (RBC) was 1,662.8% at 12/31/16. The RBC is a measure of the minimum amount of capital appropriate for a reporting entity to support its overall business operations in consideration of its size and risk profile. An RBC of 200 or below can result in regulatory action. There were no financial adjustments in this report that impacted the company's RBC score.

3. FINANCIAL STATEMENTS

A. Balance Sheet

The following shows the assets, liabilities and surplus as regards policyholders as of December 31, 2016 as reported by the Company:

Assets	Assets	Assets Not Admitted	Net Admitted Assets
Bonds	$32,005,760	$ 0	$32,005,760
Common stocks (stocks)	13,289,091	0	13,289,091
Properties occupied by the company	998,916	0	998,916
Cash, cash equivalents and short-term investments	2,319,535	0	2,319,535
Other invested assets	1,000,000	1,000,000	0
Investment income due and accrued	240,274	0	240,274
Uncollected premiums and agents' balances in the course of collection	644,473	0	644,473
Deferred premiums, agents' balances and installments booked but deferred and not yet due	1,554,802	0	1,554,802
Amounts recoverable from reinsurers	126,740	0	126,740
Funds held by or deposited with reinsured companies	2,537,000	0	2,537,000
Current federal and foreign income tax recoverable and interest thereon	1,574,578	0	1,574,578
Electronic data processing equipment and software	37,609	0	37,609
Furniture and equipment, including health care delivery assets	87,634	87,634	0
Directors and Officers life insurance	273,079	0	273,079
Equity in pools – Fair Plan	75,839	6,043	69,796
Equity in pools – NAMICO	36,965	0	36,965
Total assets	$56,802,295	$1,093,677	$55,708,618

Liabilities, surplus and other funds

Losses and loss adjustment expenses		$10,072,700
Reinsurance payable on paid losses and loss adjustment expenses		188,302
Commissions payable, contingent commissions and other similar charges		872,712
Other expenses (excluding taxes, licenses and fees)		647,333
Taxes, licenses and fees (excluding federal and foreign income taxes)		7,278
Net deferred tax liability		64,781
Unearned premiums		7,424,866
Advance premium		256,302
Ceded reinsurance premiums payable (net of ceding commissions)		80,666
Funds held by company under reinsurance treaties		1,776,000
Payable to parent, subsidiaries and affiliates		173,550
Total liabilities		$21,564,490
Surplus and other funds		
Special contingent surplus	$ 736,011	
Unassigned funds (surplus)	33,408,117	
Surplus as regards policyholders		34,144,128
Total liabilities, surplus and other funds		$55,708,618

Note: The Internal Revenue Service has not audited tax returns covering tax years 2012 through 2016. The examiner is unaware of any potential exposure of the Company to any tax assessment and no liability has been established herein relative to such contingency.

B. Statement of Income

The net income for the examination period as reported by the Company was $8,200,708 as detailed below:

Underwriting Income		
Premiums earned		$65,680,426
Deductions:		
Losses and loss adjustment expenses incurred	$35,674,459	
Other underwriting expenses incurred	25,427,522	
Total underwriting deductions		61,101,981
Net underwriting gain		$ 4,578,445
Investment Income		
Net investment income earned	$ 4,370,857	
Net realized capital gain	1,349,386	
Net investment gain		5,720,243
Other Income		
Net gain from agents' or premium balances charged off	$ 59,418	
Finance and service charges not included in premiums	794,219	
Aggregate write-ins for miscellaneous income	7,860	
Total other income		861,497
Net income before federal and foreign income taxes		$11,160,185
Federal and foreign income taxes incurred		2,959,477
Net income		$ 8,200,708

C. Capital and Surplus Account

Surplus as regards policyholders increased $9,544,710 during the five-year examination period January 1, 2012 through December 31, 2016 as reported by the Company, detailed as follows:

Surplus as regards policyholders as reported by the Company as of December 31, 2011			$24,599,418
	Gains in Surplus	Losses in Surplus	
Net income	$8,200,708		
Net unrealized capital gains or (losses)	1,299,827		
Change in net deferred income tax	100,842		
Change in non-admitted assets		$56,667	
Total gains and losses	$9,601,377	$56,667	
Net increase in surplus			9,544,710
Surplus as regards policyholders as reported by the Company as of December 31, 2016			$34,144,128

No adjustments were made to surplus as a result of this examination.

4. LOSSES AND LOSS ADJUSTMENT EXPENSES

The examination liability for the captioned items of $10,072,700 is the same as reported by the Company as of December 31, 2016. The reserves were concentrated in the homeowners/farmowners (59%) and commercial multiple peril (30%) lines of business. The examination analysis of the loss and loss adjustment expense reserves was conducted in accordance with generally accepted actuarial principles and statutory accounting principles, including the NAIC Accounting Practices & Procedures Manual, Statement of Statutory Accounting Principle No. 55 (“SSAP No. 55).

5. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

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

ITEM		PAGE NO.
B.	Accounts and Records	
i.	It was recommended that the Company make the required disclosure regarding unsecured reinsurance recoverables in its filed annual statements pursuant to SSAP No. 62R and the NAIC Annual Statement Instructions. The Company has complied with this recommendation.	11
ii.	It was recommended that the Company ensure that the contract with its CPA firm complies with the requirements of Department Regulation 118. The Company has complied with this recommendation.	11

6. SUMMARY OF COMMENTS AND RECOMMENDATIONS

This report contains no comments or recommendations.

Respectfully submitted,

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Susan Weijola, CPCU
Associate Insurance Examiner

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

Susan Weijola, being duly sworn, deposes and says that the foregoing report, subscribed by her, is true to the best of her knowledge and belief.

____
Susan Weijola

Subscribed and sworn to before me

this__________ day of ___________________, 2018.

APPOINTMENT NO. 31673

NEW YORK STATE

DEPARTMENT OF FINANCIAL SERVICES

*I, **Maria T. Vullo**, 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:*

Susan Weijola

as a proper person to examine the affairs of the

Allegany Co-op Insurance Company

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

COMPANY

with such other information as she shall deem requisite.

In Witness Whereof, I have hereunto subscribed by name
and affixed the official Seal of the Department
at the City of New York

this 16th day of October, 2017

MARIA T. VULLO
Superintendent of Financial Services

By:

Joan Riddell
Deputy Bureau Chief