

REPORT ON EXAMINATION

OF THE

NEW YORK SCHOOLS 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

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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 30633 dated January 4, 2011, attached hereto, I have made an examination into the condition and affairs of New York Schools 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 Schools 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 Schools 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 Schools 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 Schools 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 school reciprocal on March 29, 1989. The Reciprocal was licensed on June 30, 1989 and commenced operations on July 1, 1989.

The Reciprocal was organized to provide property and casualty risk coverages for New York State public school districts and it is owned by the school districts (“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.

During the period under examination, the Subscriber’s Agreement required each new subscriber to make a paid-in capital contribution equal to 5% of gross premiums in each of the first five years. Effective May 17, 2012, a plan was adopted by the Board of Governors pursuant to the Subscriber’s Agreement to suspend future paid-in capital contributions and to provide for a return to each subscriber and former subscriber of their respective paid-in capital contributions.

On June 29, 2011, the Reciprocal submitted to this Department an application pursuant to Section 1603 of the New York Insurance Law to acquire Scholar Reinsurance Company, Inc. (“Scholar Re”), a Vermont domiciled non-profit captive reinsurance company, which was organized for the purpose of writing insurance and reinsurance as a captive insurance company pursuant to Chapter 141 of Title 8 of the Vermont Statute. The application was approved on October 21, 2011.

Pursuant to Section 6102(b)(12) of the New York Insurance Law, the Reciprocal has elected not to be subject to coverage by the Property/Casualty Insurance Security Fund under Article 76 of the New York Insurance Law. As a result, each policy issued by the Reciprocal must disclose this lack of coverage and provide for an unlimited contingent several liability for assessment of the subscriber.

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 Subscriber's Agreement. The By-Laws and the Subscriber's Agreement specify that the board of governors shall consist of no fewer than nine members. The governors meet four times during each calendar year. At December 31, 2011, the board of governors was comprised of the following twenty-five members:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Thomas Pendell Austin Walton, NY	Superintendent, Walton CSD
Gladys Pagan Baxter Ellenville, NY	Assistant Superintendent for Business/Support Services, Monticello CSD
John Joseph Belmonte Holbrook, NY	Assistant Superintendent for Business, Sayville UFSD
Mark Louis Betz Harrison, NY	Assistant Superintendent for Business, Bedford CSD
Meredith Maher Brosnan Glen Head, NY	Assistant Superintendent for Business, Valley Stream UFSD
Janet May Bryan Islandia, NY	Assistant Superintendent for District Operations, Longwood CSD
Sharon Lee Cihocki Boonville, NY	Business Administrator, Adirondack CSD
Nancy Jane Henner Sterling, NY	Business Administrator, Hannibal CSD

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
James Fichera Webster, NY	Chief Financial Officer, Webster CSD
Shelley Hood Fitzpatrick Sandy Creek, NY	Business Administrator, Sandy Creek CSD
William John Furlong Cazenovia, NY	Assistant Superintendent, Cazenovia CSD
David H. Grackin Lake Ronkonkoma, NY	Assistant Superintendent for Finance, Huntington UFSD
Kurt Lee Jaeger Greenfield Center, NY	Assistant Superintendent, Springs City CSD
Cynthia Rose Johnston Keene Valley, NY	Superintendent, Keene CSD
James Bernard Johnston Pomora, NY	Assistant Superintendent for Business Haverstraw-Stonypoint CSD
Gregory Walter Kern Lockport, NY	School Business Administrator, Elmira City SD
Kishore Kuncham North Bellmore, NY	Superintendent, Freeport Public Schools
Robert Kenneth Libby Johnstown, NY	Assistant Superintendent for Business, Cohoes CSD
Richard Alan Linden Hopewell Junction, NY	Assistant Superintendent for Business, New Paltz CSD
Stephen James Lunden Middleport, NY	Assistant Superintendent – Administrative Services Cheektowaga, New York
Jeffrey Keith Martin White Plains, NY	Business Manager, Scarsdale UFSD
Carleen Millsaps Nyack, NY	Assistant Superintendent for Business, Nyack UFSD
Eric Mitchell Stark Redding, CT	Assistant Superintendent for Business, Carmel CSD
William Frederick Thorton Monticello, NY	School Business Administrator, Eldred CSD

Name and ResidencePrincipal Business Affiliation

John Joseph Staiger  
Wallkill, NY

Assistant Superintendent for Business,  
Tarrytown UFSD

Timothy Paul Whipple  
Malone, NY

Business Administrator,  
Malone CSD

Board of Governors' Meetings

A review of the minutes of the board of governors' meetings held during the examination period indicated that the meetings were generally well attended with the exception of Shelley Hood Fitzpatrick and Kishore Kuncham, each of whom attended less than 50% of the meetings for which they were eligible to attend.

Members of the board have a fiduciary responsibility and must evince an ongoing interest in the affairs of the insurer. It is essential that board members attend meetings consistently and set forth their views on relevant matters so that the board may reach appropriate decisions. Individuals who fail to attend at least one-half of the regular meetings do not fulfill such criteria. It is recommended that board members who are unable or unwilling to attend meetings consistently should resign or be replaced.

As of December 31, 2011, the principal officers of the Reciprocal were as follows:

Name

Peter Joshua Weber  
Thomas Pendell Austin  
John Joseph Staiger

Title

President  
Vice President  
Treasurer and Secretary

Conflict of Interest Policy

The Reciprocal has a conflict of interest policy in place for its board members and key employees. A review of the conflict of interest policy shows that the board members did not complete nor sign any conflict of interest questionnaire for the period under examination. A conflict of interest policy statement is designed to provide a safeguard to the activities and the assets of the company by allowing 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.

#### Section 312 of the New York Insurance Law

Section 312(b) of the New York Insurance Law requires that every insurer must furnish a copy of the filed report on examination to each member of its board of directors (governors), and each such member shall sign a statement which shall be retained in the insurers' files confirming that such member has received and read the report on examination.

The Reciprocal was unable to provide any statements signed by its governors confirming that they had received and read the prior report on examination. It is recommended that the Reciprocal put the necessary procedures in place to ensure that the board of governors complies with Section 312 of the New York Insurance Law.

#### Attorney-In-Fact

The New York Schools Insurance Foundation, Inc. ("NYSIF"), a New York not-for-profit corporation, serves as the Attorney-in-Fact for the Reciprocal pursuant to an authorization by the Board of Governors. NYSIF serves as Attorney-in-Fact in name only for the purpose of executing contracts and receives no compensation.

#### Management Agreement

Pursuant to a management agreement dated July 1, 1999 between Wright Risk Management Company, Inc. ("WRM") and NYSIF, WRM was appointed to manage the affairs and operations of the Reciprocal and to assist NYSIF and the board of governors in their performance and responsibilities pursuant to the Subscriber's Agreement and the New York Insurance Law or regulations. Effective July 1, 2008, NYSIF renewed its management agreement with WRM covering a five year period beginning July 1, 2008 and ending June 30, 2013. Under the agreement, WRM 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 be less than thirteen percent (13%) nor more than seventeen percent (17%) of the Reciprocal's annualized premium for all policies in force.

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
19	Motor vehicle and aircraft physical damage
20	Marine and inland marine
29	Legal services

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 \$1,800,000.

The Reciprocal provides various property and casualty insurance risk coverages for school districts, which are customized to specifically address the needs of the educational community. The Reciprocal is licensed to write general liability, auto liability and physical damage, school board legal liability, builder's risk and excess umbrella liability coverage. The Reciprocal's business is produced on a direct basis and through brokers and agents, who are charged with contacting all eligible school districts to try and sell them policies. Further, the Reciprocal markets its business on a direct basis in the southern part of New York, and most recently in the northern and western parts of New York State. By statute, the Reciprocal is not permitted to underwrite the five largest school systems of New York City, Buffalo, Rochester, Syracuse and Yonkers.

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	\$71,605,219
2005	\$79,891,568
2006	\$83,938,458
2007	\$83,798,704
2008	\$80,178,190
2009	\$78,272,484
2010	\$79,330,935
2011	\$79,559,402

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>	Limit of \$300,000,000 blanket per risk or occurrence excess of \$1,000,000 per occurrence, plus an additional 15% share of the next \$9,000,000 or \$1,350,000 for a maximum retention of \$2,350,000 under the contract.
Six Layers	
76% Authorized	
24% Unauthorized	
<u>Casualty</u>	
<u>First Casualty Excess of Loss Reinsurance</u>	Limit of \$250,000 excess of \$750,000 ultimate net loss each and every occurrence, subject to an aggregate limit of \$1,000,000 for all losses occurring under the contract for losses classified as "Acts of Terrorism."
100% Authorized	

Type of CoverageCessionEducation Excess Catastrophe Liability Quota Share Reinsurance (Policy limits greater than \$1,000,000)

Section (I) 91% Authorized  
9% Unauthorized

Section (II) 91% Authorized  
9% Unauthorized

General Liability

- i. 72.5% quota share participation of the Reciprocal's net retained liability as respects the first \$5,000,000 each occurrence, products/completed operations each occurrence, policy aggregate, and each person or organization personal and advertising injury.
- ii. 72.5% quota share participation of the Reciprocal's net retained liability for amounts up to \$20,000,000 in excess \$5,000,000 each occurrence, products/completed operations each occurrence, policy aggregate, and each person or organization personal and advertising injury.

Automobile

- i. 72.5% quota share participation of the Reciprocal's net retained liability as respects the first \$5,000,000.
- ii. 72.5% quota share participation of the Reciprocal's net retained liability for amounts up to \$20,000,000 in excess of \$5,000,000.

School Leaders' Errors and Omissions

- i. 72.5% quota share participation of the Reciprocal's net retained liability as respects the first \$5,000,000 each occurrence and policy aggregate.
- ii. 72.5% quota share participation of the Reciprocal's net retained liability for limit of \$20,000,000 in excess \$5,000,000 each occurrence and policy aggregate.

School Board Legal Liability Excess of Loss Reinsurance

100% Authorized

Limit of \$250,000 in excess of \$750,000 ultimate net loss each and every occurrence, subject to an aggregate limit of \$1,000,000 for all losses occurring under the contract for losses classified as "Acts of Terrorism."

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

100% Authorized

- i. Limit of 90% part of \$5,000,000 net loss for any one accident, any one policy.
- ii. Limit of \$95,000,000 excess \$5,000,000 net loss for any one accident, any one policy.

The Reciprocal's reinsurance program has changed since the last report on examination as follows:

For the Property Facultative Excess of Loss treaty, the Reciprocal's retention on the first layer (\$9,000,000 excess of \$1,000,000) increased from 10% to 15%; for the First Casualty Excess of Loss treaty, the Reciprocal's retention increased from \$500,000 to \$750,000; for the Education Excess Catastrophe Quota Share treaty, the quota share cession decreased from 95% to 72.5%; and for the Equipment Breakdown Excess of Loss treaty, the limit increased from \$25,000,000 to \$95,000,000.

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.

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 \$94,865 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.

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	44%
Liabilities to liquid assets (cash and invested assets less investments in affiliates)	56%
Premiums in course of collection to surplus as regards policyholders	( 0%)

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	\$327,779,827	77.93%
Other underwriting expenses incurred	75,606,415	17.98
Net underwriting gain	<u>17,209,446</u>	<u>4.09</u>
Premiums earned	<u>\$420,595,688</u>	<u>100.00%</u>

E. Accounts and Records

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>Assets Not Admitted</u>	<u>Net Admitted Assets</u>
Bonds	\$209,842,519	\$ 0	\$209,842,519
Cash, cash equivalents and short-term investments	5,202,000	0	5,202,000
Other invested assets	19,869,571	0	19,869,571
Receivables for securities	1,609	0	1,609
Investment income due and accrued	1,395,891	0	1,395,891
Uncollected premiums and agents' balances in the course of collection	84,595	0	84,595
Amounts recoverable from reinsurers	2,463,452	0	2,463,452
Receivables from parent, subsidiaries and affiliates	7,349	0	7,349
Aggregate write-ins for other than invested assets	<u>33,178</u>	<u>0</u>	<u>33,178</u>
Totals	<u>\$238,900,164</u>	<u>\$ 0</u>	<u>\$238,900,164</u>

#### Liabilities, Surplus and Other Funds

	<u>Examination</u>
<u>Liabilities</u>	
Losses and loss adjustment expenses	\$ 92,587,200
Other expenses (excluding taxes, licenses and fees)	366,600
Unearned premiums	25,767,290
Ceded reinsurance premiums payable (net of ceding commissions)	2,103,351
Provision for reinsurance	<u>555,753</u>
Total liabilities	<u>\$121,380,194</u>
<u>Surplus and Other Funds</u>	
Gross paid in and contributed surplus	\$ 3,199,923
Unassigned funds (surplus)	<u>114,320,048</u>
Surplus as regards policyholders	<u>\$117,519,971</u>
Total liabilities, surplus and other funds totals	<u>\$238,900,165</u>

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

B. Statement of Income

Surplus as regards policyholders increased by \$76,014,124 during the eight-year examination period January 1, 2004 through December 31, 2011, detailed as follows:

Underwriting Income

Premiums earned		\$420,595,688
Deductions:		
Losses and loss adjustment expenses incurred	\$327,779,827	
Other underwriting expenses incurred	75,606,415	
Aggregate write-ins for underwriting deductions	<u>0</u>	
Total underwriting deductions		<u>403,386,242</u>
Net underwriting gain or (loss)		\$ 17,209,446

Investment Income

Net investment income earned	\$ 54,501,458	
Net realized capital gain	<u>4,009,548</u>	
Net investment gain or (loss)		\$ <u>58,511,006</u>

Other Income

Net gain or (loss) from agents' or premium balances charged off	\$ ( 21,703)	
Finance and service charges not included in premiums	0	
Aggregate write-ins for miscellaneous income	<u>(150,174)</u>	
Total other income		\$ <u>( 171,877)</u>
Net Income		\$ <u>75,548,575</u>

Surplus as regards policyholders per report on examination as of December 31, 2003			\$ <u>41,505,843</u>
	<u>Gains in</u>	<u>Losses in</u>	
	<u>Surplus</u>	<u>Surplus</u>	
Net income	\$75,548,575		
Net unrealized capital gains or (losses)		\$ 130,429	
Change in nonadmitted assets	115,000		
Change in provision for reinsurance		326,954	
Surplus adjustments paid in	<u>807,932</u>	<u>0</u>	
Total gains and losses	<u>\$76,471,507</u>	<u>\$ 457,383</u>	
Net increases (decreases) in surplus			\$ <u>76,014,124</u>
Surplus as regards policyholders per report on examination as of December 31, 2011			\$ <u>117,519,967</u>

#### 4. LOSSES AND LOSS ADJUSTMENT EXPENSES

The examination liability for the captioned items of \$92,587,200 is the same as 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 two recommendations as follows (page numbers refer to the prior report):

<u>ITEM</u>	<u>PAGE NO.</u>
A. <u>Abandoned Property Law</u>	
It is recommended that the Reciprocal comply with the New York Abandoned Property Law and file the required reports.	11
The Reciprocal has complied with this recommendation.	
B. <u>Accounts and Records</u>	
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.	14
The Reciprocal has complied with this recommendation.	

## 6. SUMMARY OF COMMENTS AND RECOMMENDATIONS

<u>ITEM</u>	<u>PAGE NO.</u>
A. <u>Management</u>	
<u>Board of Governors</u>	
(i) It is recommended that board members who are unable or unwilling to attend meetings consistently should resign or be replaced.	6
(ii) <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 consistently on an annual basis and retain such statements in its files.	7
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.	7
(iii) <u>Section 312 of the New York Insurance Law</u>	
It is recommended that the Reciprocal put the necessary procedures in place to ensure that the board of governors complies with Section 312 of the New York Insurance Law.	7
B. <u>Accounts and Records</u>	
<u>Designation of an Audit Committee</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. The Reciprocal's Manager has acknowledged the need to change its password policy and has set a target date for implementing these policy changes.	13



Appointment No. 30633

**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 SCHOOLS INSURANCE 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