

REPORT ON EXAMINATION

OF

MID-HUDSON CO-OPERATIVE INSURANCE COMPANY

AS OF

DECEMBER 31, 2014

DATE OF REPORT

DECEMBER 30, 2015

EXAMINER

LAMIN JAMMEH

## TABLE OF CONTENTS

<u>ITEM NO.</u>		<u>PAGE NO.</u>
1	Scope of Examination	2
2.	Description of Company	3
	A. Management	3
	B. Territory and plan of operation	4
	C. Reinsurance	5
	D. Holding company system	7
	E. Significant operating ratios	7
3.	Financial Statements	8
	A. Balance sheet	8
	B. Statement of income	10
	C. Capital and surplus	11
4.	Losses and loss adjustment expenses	12
5.	Subsequent events	12
6.	Compliance with prior report on examination	13
7.	Summary of comments and recommendations	13



NEW YORK STATE  
DEPARTMENT *of*  
FINANCIAL SERVICES

---

Andrew M. Cuomo  
Governor

Maria T. Vullo  
Superintendent

December 30, 2015

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 31370 dated August 17, 2015, attached hereto, I have made an examination into the condition and affairs of Mid-Hudson Co-operative Insurance Company as of December 31, 2014, and submit the following report thereon.

Wherever the designation “the Company” appears herein without qualification, it should be understood to indicate Mid-Hudson 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 104 Bracken Road, Montgomery, NY 12549.

## 1. SCOPE OF EXAMINATION

The Department has performed a single state examination of the Company. The previous examination was conducted as of December 31, 2009. This examination covered the five year period from January 1, 2010 through December 31, 2014. Transactions occurring subsequent to this period were reviewed where deemed appropriate by the examiner.

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

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

This examination report includes a summary of significant findings for the following items as called for in the 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, as an assessment cooperative, on April 19, 1900 under the laws of the State of New York as The Westchester and Putnam Patrons' Fire Relief Association. It commenced business on September 1st of the same year.

On November 10, 1965, The Westchester and Putnam Patrons' Fire Relief Association changed its name to Mid-Hudson Co-operative Insurance Company.

### A. Management

Pursuant to the Company's charter and by-laws, management of the Company is vested in a board of directors consisting of not less than seven nor more than fifteen members. The board meets four times during each calendar year. At December 31, 2014, the board of directors was comprised of the following twelve members:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Marc A. Baez Liberty, NY	Retired President Economic Development for Sullivan County
Catherine M. Bender Grahamsville, NY	Partner Coombe & Bender, LLC
Paul Boehme Chatham, NY	Mayor Chatham, NY
Greg M. Cooper Mongaup Valley, NY	Managing Partner Cooper Arias & Company
George E. Dunkel Pine Bush, NY	Retired President Community Bank of Sullivan County

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Raymond J. Enright Stanfordville, NY	Retired Teacher
Edward N. Harper Niskayuna, NY	Executive Vice President Mid-Hudson Cooperative Insurance Company
Maureen M. Hess Hudson, NY	Secretary Claverack Co-operative Insurance Company
Alan R. Lewis Newburgh, NY	Attorney Alan R. Lewis Law Firm
James M. Russell Frankfort, NY	Retired President Allegany Co-operative Insurance Company
Gary C. Schmidt Monticello, NY	Chief Executive Officer Schmidt's Wholesale, Inc.
Gerald J. Skoda Woodbourne, NY	President Mid-Hudson Co-operative 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, 2014 the principal officers of the Company were as follows:

<u>Name</u>	<u>Title</u>
Gerald J. Skoda	President
Edward N. Harper	Executive Vice President and CEO
Greg M. Cooper	Secretary and Treasurer
George E. Dunkel	Vice President

B. Territory and Plan of Operation

As of December 31, 2014, the Company was licensed to write business within all counties of the State of New York, excluding the counties of New York, Kings, Queens, Bronx, and Richmond.

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
12	Collision
13	Personal injury liability
14	Property damage liability
15	Workers' compensation and employers' liability (excluding workers' compensation)
19	Motor vehicle and aircraft physical damage (excluding aircraft physical damage)
20	Marine and inland marine (inland marine only)

Based on the lines of business for which the Company is licensed and pursuant to the requirements of Articles 13 and 66 of the New York Insurance Law, the Company is required to maintain a minimum surplus to policyholders in the amount of \$100,000.

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

<u>Calendar Year</u>	<u>Total Premium</u>
2010	\$6,397,875
2011	\$6,742,243
2012	\$7,248,882
2013	\$7,940,184
2014	\$9,124,196

The company offers farm-owners, homeowners, mobile homeowners, landlord, business owners and commercial multi-peril policies. At December 31, 2014, the Company wrote insurance exclusively through 251 independent agents.

#### C. Reinsurance

The Company did not assume any reinsurance business during the period covered by this examination.

The Company has structured its ceded reinsurance program as follows:

<u>Type of treaty</u>	<u>Cession</u>
 <u>Multiple Line Excess of loss</u>	
<u>Property</u> 2 layers	\$375,000 in excess of \$125,000 each loss, each risk subject to a limit of liability to the reinsurer of \$1,125,000 each loss occurrence;  \$250,000 in excess of \$500,000 each loss, each risk subject to a limit of liability to the reinsurer of \$750,000 each loss occurrence
<u>Casualty</u> 2 layers	\$400,000 in excess of \$100,000 combined net loss each loss occurrence subject to a limit of liability to the reinsurer of \$400,000 each loss occurrence;  \$500,000 in excess of \$500,000 combined net loss per occurrence subject to a limit of liability to the reinsurer of \$500,000 any one loss occurrence
<u>Casualty and Property Combined</u>	\$100,000 in excess of \$125,000 combined net loss each loss occurrence subject to a limit of liability to the reinsurer of \$100,000 any one loss occurrence
<u>Casualty Clash Excess of loss</u>	\$2,000,000 in excess of \$1,000,000 combined net loss per occurrence
<u>Property Catastrophe</u> 4 layers	95% of \$300,000 in excess of \$200,000 each loss occurrence 95% of \$1,000,000 in excess of \$500,000 each loss occurrence 95% of \$1,500,000 in excess of \$1,500,000 each loss occurrence 100% in excess of \$3,000,000 each loss occurrence

Facultative reinsurance is also used on property risks above \$1,000,000. The company's multiple lines excess of loss programs are administered by Guy Carpenter & Company, LLC, under the auspices of the Regional Accounts Program.

All of the Company's cessions during the examination period were to authorized or accredited reinsurers.

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.

The 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

As of December 31, 2014, the Company was not a member of any holding company system.

E. Significant Operating Ratios

The following ratios have been computed as of December 31, 2014, based upon the results of this examination:

Net premiums written to surplus as regards policyholders	64%
Liabilities to liquid assets (cash and invested assets less investments in affiliates)	40%
Premiums in course of collection to surplus as regards policyholders	1%

All of the above ratios fall within the benchmark ranges set forth in the Insurance Regulatory Information System of the National Association of Insurance Commissioners.

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

	<u>Amounts</u>	<u>Ratios</u>
Losses and loss adjustment expenses incurred	\$13,647,622	49.32%
Other underwriting expenses incurred	10,694,244	38.65
Net underwriting loss	<u>3,328,924</u>	<u>12.03</u>
Premiums earned	<u>\$27,670,790</u>	<u>100.00%</u>

### 3. FINANCIAL STATEMENTS

#### A. Balance Sheet

The following shows the assets, liabilities and surplus as regards policyholders as of December 31, 2014 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	\$11,096,838	\$ 0	\$11,096,838
Common stocks (stocks)	5,457,390		5,457,390
Properties occupied by the company	220,929		220,929
Cash and short-term investments	1,591,162		1,591,162
Investment income due and accrued	113,069		113,069
Uncollected premiums and agents' balances in the course of collection	156,353	29,597	126,756
Deferred premiums, agents' balances and installments booked but deferred and not yet due	1,848,067	0	1,848,067
Amounts recoverable from reinsurers	11,942	0	11,942
Electronic data processing equipment and software	106,749	106,749	0
Furniture and equipment, including health care delivery assets	28,432	28,432	0
Prepaid expense	17,848	17,848	0
Receivable on structured settlement loss	<u>82,609</u>	<u>84,609</u>	<u>0</u>
Total assets	<u>\$20,733,388</u>	<u>\$267,235</u>	<u>\$20,466,153</u>

Liabilities, surplus and other fundsLiabilities

Losses and loss adjustment expenses		\$2,833,196
Commissions payable, contingent commissions and other similar charges		767,369
Other expenses (excluding taxes, licenses and fees)		197,237
Taxes, licenses and fees (excluding federal and foreign income taxes)		7,136
Current federal and foreign income taxes		31,211
Net deferred tax liability		268,802
Unearned premiums		4,688,350
Advance premium		3,591
Ceded reinsurance premiums payable (net of ceding commissions)		145,892
Remittances and items not allocated		95,112
Abandoned property		<u>28,184</u>
Total liabilities		9,066,080

Surplus and Other Funds

Required Surplus	100,000	
Unassigned funds (surplus)	<u>11,300,073</u>	
Surplus as regards policyholders		<u>11,400,073</u>
Total liabilities, surplus and other funds		<u>\$20,466,153</u>

Note: The Internal Revenue Service has not yet begun to audit tax returns covering tax years 2010 through 2014. 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

Net income for the five-year examination period, January 1, 2010 through December 31, 2014, was \$3,752,267 detailed as follows:

Underwriting Income

Premiums earned		\$27,670,790
Deductions:		
Losses and loss adjustment expenses incurred	\$13,647,622	
Other underwriting expenses incurred	10,754,612	
Aggregate write-ins for underwriting deductions	<u>(60,368)</u>	
Total underwriting deductions		<u>24,341,866</u>
Net underwriting gain or (loss)		3,328,924

Investment Income

Net investment income earned	1,101,855	
Net realized capital gain	<u>541,095</u>	
Net investment gain or (loss)		1,642,950

Other Income

Net gain or (loss) from agents' or premium balances charged off	(113,983)	
Finance and service charges not included in premiums	602,637	
Aggregate write-ins for miscellaneous income	<u>(367,961)</u>	
Total other income		<u>120,693</u>
Net income before federal and foreign income taxes		5,092,567
Federal and foreign income taxes incurred		<u>1,340,300</u>
Net income		<u>\$3,752,267</u>

C. Capital and Surplus Account

Surplus as regards policyholders increased \$4,723,678 during the five-year examination period January 1, 2010 through December 31, 2014, detailed as follows:

Surplus as regards policyholders per report on examination as of December 31, 2009			\$6,676,395
	<u>Gains in</u> <u>Surplus</u>	<u>Losses in</u> <u>Surplus</u>	
Net income	\$3,752,267	\$	
Net unrealized capital gains or (losses)	1,678,571		
Change in net deferred income tax		497,074	
Change in non-admitted assets		<u>210,086</u>	
Total gains and losses in surplus	<u>\$5,430,838</u>	<u>\$707,160</u>	
Net increase (decrease) in surplus			<u>4,723,678</u>
Surplus as regards policyholders per report on examination as of December 31, 2014			<u>\$11,400,073</u>

#### 4. LOSSES AND LOSS ADJUSTMENT EXPENSES

The examination liability for the captioned items of \$2,833,196 is the same as reported by the Company as of December 31, 2014. 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. SUBSEQUENT EVENTS

Effective April 1, 2015, the Company entered into an Agreement of Affiliation with Claverack Cooperative Insurance Company (“Claverack”), an assessment cooperative insurance company domiciled in the State of New York. As part of the Agreement of Affiliation, the Company entered into the following agreements:

i. Quota Share Reinsurance Agreement

Pursuant to the terms and conditions of this agreement, Claverack will cede 100% of its business to the Company.

ii. Net Quota Share Reinsurance Agreement

Pursuant to the terms and conditions of this agreement, the Company will cede 18% of its business net of any external reinsurance to Claverack.

iii. Expense Sharing Agreement

Pursuant to the terms and conditions of this agreement, the Company and Claverack will share certain expenses in order to reduce the overall operating expenses of each company.

On April 2, 2015 the Department did not object to the captioned agreements. The non-objection is contingent on the proper allocation of expenses and compliance with the management expense limitation of Section 6613 of the New York Insurance Law.

6. **COMPLIANCE WITH PRIOR REPORT ON EXAMINATION**

There were no comments or recommendations in the prior report on examination.

7. **SUMMARY OF COMMENTS AND RECOMMENDATIONS**

This report contains no comments or recommendations.

Respectfully submitted,

---

Lamin Jammeh  
Senior Insurance Examiner

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

Lamin Jammeh, being duly sworn, deposes and says that the foregoing report, subscribed by him,  
is true to the best of his knowledge and belief.

---

Lamin Jammeh

Subscribed and sworn to before me

this \_\_\_\_\_ day of \_\_\_\_\_, 2016

**APPOINTMENT NO. 31370**

**NEW YORK STATE**

**DEPARTMENT OF FINANCIAL SERVICES**

I, **ANTHONY ALBANESE**, Acting 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:

**Lamin Jammeh**

as a proper person to examine the affairs of the

**Mid-Hudson Co-operative 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 by name  
and affixed the official Seal of the Department  
at the City of New York

this 17th day of August, 2015

**ANTHONY ALBANESE**  
Acting Superintendent of Financial Services

By:



Rolf Kaumann  
Deputy Chief Examiner

