REPORT ON EXAMINATION

OF THE

WAYNE COOPERATIVE INSURANCE COMPANY

AS OF

DECEMBER 31, 2003

DATE OF REPORT	FEBRUARY 14, 2005
EXAMINER	GERARD L. FRANCO

STATE OF NEW YORK
INSURANCE DEPARTMENT
ONE COMMERCE PLAZA
ALBANY, NEW YORK 12257

George E. Pataki
Governor

Howard Mills
Acting Superintendent

February 14, 2005

Honorable Howard Mills
Acting Superintendent of Insurance
Albany, New York 12257

Sir:

Pursuant to the requirements of the New York Insurance Law, and in compliance with the instructions contained in Appointment Number 22245 dated August 10, 2004 attached hereto, I have made an examination into the condition and affairs of Wayne Cooperative Insurance Company as of December 31, 2003, and submit the following report thereon.

The examination was conducted at the Company's administrative offices located at 10267 Old Rte 31, Clyde, New York 14433-0072.

Wherever the designations "the Company" or "WCIC" appear herein without qualification, they should be understood to indicate Wayne Cooperative Insurance Company.

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

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1. SCOPE OF EXAMINATION

The previous examination was conducted as of December 31, 1998. This examination covered the five-year period from January 1, 1999 through December 31, 2003, and was limited in scope to these balance sheet items considered by this Department to require analysis, verification or description, including: invested assets, loss and loss adjustment expenses reserves and the provision for reinsurance. The examination included a review of income, disbursements and company records deemed necessary to accomplish such analysis and verification and utilized, to the extent considered appropriate, work performed by the Company's independent certified public accountants. Transactions occurring subsequent to this period were reviewed where deemed appropriate by the examiner.

A review was 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, which involve departure from laws, regulations or rules, or which are deemed to require explanation or description.

A review or audit was also made of the following items as called for in the Examiners Handbook of the National Association of Insurance Commissioners:

History of Company
Management and control
Corporate records
Fidelity bond and other insurance
Territory and plan of operation
Growth of Company
Loss experience
Reinsurance
Accounts and records
Financial statements

2. DESCRIPTION OF COMPANY

The Company was organized in 1877 for the purpose of transacting business as an assessment co-operative fire insurance company in the counties of Wayne, Ontario, Seneca, Monroe and Cayuga in New York State.

On December 27, 1910, a certificate was issued by this Department authorizing the Company to continue the transaction of business as an assessment co-operative insurance company in the above named counties.

On June 20, 1980, the Company was authorized to change its name from The Fire Relief Association of Wayne County to Wayne Cooperative Insurance Company.

As of January 1, 1987, the Company was authorized to write in all counties of New York State, excluding the counties of New York, Kings, Queens, Bronx and Richmond.

A. Management

Pursuant to the Company's charter and by-laws, management of the Company is vested in a board of directors consisting of not less than nine nor more than fifteen members. As of the examination date, the board of directors was comprised of fourteen members, divided into three groups as nearly equal as possible, with one group being elected at each annual policyholders' meeting for a term of three years. Every member insured by the Company is entitled to one vote at any meeting of the members. However, policyholders may not vote by proxy. The annual meeting of the board of directors is held immediately after the annual meeting of the Company. At least two board of director's and two executive committee meetings were held each year for the period under examination, thereby complying with Section 6624(b) of the New York Insurance Law.

The directors as of December 31, 2003, were as follows:

Director	Principal Business Affiliation
Allen J. Albright Ontario, NY	Retired farm operator
John J. Braccio Clyde, NY	Public Accountant and Secretary of WCIC
Robert F. Brisky Clyde, NY	Owner, Finger Lakes Construction
James F. Buisch Woodville, NY	Monroe Tractor Management
John D. Chapman Macedon, NY	Retired and Vice Chairperson of WCIC
Kenneth E. DiSanto Clyde, NY	Clyde Industrial Development
Jane E. Hubbs Clyde, NY	Retired
Margaret H. Laws Macedon, NY	Retired
Jeffrey W. Rice Clyde, NY	President and Chairperson of WCIC
Wayne V. Rice Clyde, NY	Treasurer of WCIC
Thomas A. Smart Lyons, NY	Retired
William L. Tatro IV Newark, NY	Owner, Eagle Steward LTD Securities
William M. Thompson Canandaigua, NY	Owner, Tax Preparation Firms
Richard A. Wadsworth Lyons, NY	Teacher's Aide/Monitor-Gananda School District

A review of the minutes of the board of directors' meetings held during the examination period indicated that the meetings were generally well attended and each board member has an acceptable record of attendance. The average attendance by the board of directors during the examination period was approximately 94%.

Each of the directors' qualifications, as set forth in Article VI of the Company's charter and Article II Section I of its by-laws, was reviewed and it appears that each director is duly qualified.

As of December 31, 2003, the principal officers of the Company were as follows:

Name	Title
Jeffrey W. Rice	President
Marshall J. Hancock	Vice President
Bonnie L. Barclay	Assistant Vice President
John J. Braccio	Secretary
Wayne V. Rice	Chairperson of the Board and Treasurer
John D. Chapman	Vice Chairperson of the Board

B. Territory and Plan of Operation

As of December 31, 2003, 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 damage
6	Water damage
7	Burglary and theft
8	Glass
12	Collision
13	Personal injury liability
14	Property damage liability
15	Worker's compensation and employer's liability (excluding Workers' Compensation)
19	Motor vehicle and aircraft physical damage (excluding aircraft physical damage)
20	Marine and inland marine (Inland Marine only)

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

Calendar Year	Direct Premiums Written
1999	$ 5,419,133
2000	5,872,671
2001	6,541,375
2002	7,230,360
2003	8,217,273

Based on the lines of business for which the Company is licensed and the Company's 2003 current capital structure, 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.

At December 31, 2003, the Company wrote insurance through independent agents.

The Company's predominate lines of business are homeowners multiple peril, commercial multiple peril and farmowners multiple peril, which accounted for 33.6%, 33.4% and 17.9%, respectively, of the Company's 2003 direct written business.

C. Reinsurance

Assumed

The Company does not assume any reinsurance business.

Ceded

The Schedule F data as contained in the Company's filed annual statement was found to accurately reflect its reinsurance transactions.

The examiner reviewed all ceded reinsurance contracts in effect at December 31, 2003. The contracts all contained the required standard clauses, including insolvency clauses, meeting the requirements of Section 1308 of the New York Insurance Law.

The Company had the following property and casualty excess of loss reinsurance program in effect at December 31, 2003:

Property (3 layers)	$1,125,000 in excess of $75,000 ultimate net loss any one loss any one risk, subject to a further limit of $250,000,$900,000 and $1,200,000 for first through third excess layers, respectively
Casualty (3 layers)	$925,000 in excess of $75,000 as respect any one loss occurrence
Casualty Clash	$2,000,000 in excess of $1,000,000 in any one loss occurrence
Property Catastrophe (2 layers)	95% of $700,000 in excess of $300,000 ultimate net loss each loss occurrence, involving three or more risks
	100% excess ultimate net loss each loss occurrence in excess of $1,000,000
Aggregate	95% of $1,000,000 of the amount by which aggregate net losses for any one agreement year exceeds an amount equal to 80% of net earned premium during such agreement year

On the first layer of the property catastrophe agreement only 95% of the limit is ceded with 5% retained by the Company, thus, the Company retains for its own account $35,000, which is in addition to the original $300,000 retention on the first layer.

The Company had the following property facultative reinsurance program in effect at December 31, 2003:

Property	The lesser of fifty percent (50%) of the gross liability or $600,000 in respect of any property risk reinsured here under

All reinsurance contracts in effect throughout the examination period were reinsured by an authorized reinsurer. The Company's ultimate net retention for both the property and casualty lines of business remained at $75,000.

D. Holding Company System

The Company was independent with no affiliations at December 31, 2003. It is not a member of any holding company system.

E. Abandoned Property Law

Section 1316 of the New York State Abandoned Property Law provides that amounts payable to a resident of this state from a policy of insurance, if unclaimed for three years, shall be deemed to be abandoned property. Such abandoned property shall be reported to the comptroller on or before the first day of April each year. Such filing is required of all insurers regardless of whether or not they have any abandoned property to report.

The Company's abandoned property reports for the period of this examination were all filed on a timely basis pursuant to the provisions of Section 1316 of the New York State Abandoned Property Law.

F. Significant Operating Ratios

The following ratios have been computed as of December 31, 2003, based upon the results of this examination:

Net premiums written to Surplus as regards policyholders	119%
Liabilities to liquid assets (cash and invested assets less investments in affiliates)	65%
Premiums in course of collection to Surplus as regards policyholders	3%

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:

	Amounts	Ratios
Loss and loss adjustment expenses incurred	$19,625,598	74.50%
Other underwriting expenses incurred	9,512,829	36.11
Net underwriting loss	(2,794,738)	(10.61)
Premiums earned	$26,343,689	100.00%

G. Accounts and Records

SSAP 26, paragraph 6 of the NAIC Accounting Practices and Procedures Manual states, in part, "Amortization of bond premium or discount shall be calculated using the scientific (constant yield) interest method taking into consideration specified interest and principal provisions over the life of the bond…" Differences were found between Company amortization values recorded in the 2003 annual statement and the examination sample of bond amortization values. All differences over $100 were reviewed with WCIC management and it was concluded that the differences were caused by the Company using the straight line method of amortization.

It is recommended that the Company comply with SSAP 26, paragraph 6 and use the scientific (constant yield) interest method in calculating amortization on bond premiums or discounts.

Also, in the review of the Notes to Financial Statements, Note 1(C)(2) it was noticed the Company responded that Bonds were stated at amortized cost using the interest method unless required by the NAIC to be carried at fair value. As the bond premiums and discounts were found to be calculated using the straight line method, it is clear that the company's response in Notes to Financial Statement was not accurate.

It is recommended that the Company follow the annual statement instructions and complete the Notes to the Financial Statements in an accurate and proper manner.

In Schedule DA Part 1, the company reports a repurchase agreement with the Savanah Bank, NA. In the review of the Company's 2003 annual statement it was noted that the Company responded "N/A" to Note 5 INVESTMENTS. As required by SSAP No. 45, paragraph 18, the following disclosure must be made:

<u>Disclosures</u>

18. The following disclosures shall be made in the financial statements:

(a) If the reporting entity has entered into repurchase agreements, its policy for requiring collateral or other security;

(b) A description of the securities underlying the agreements, including book values and fair values, maturities, and weighted average interest rates for the following categories:

  i. securities subject to reverse repurchase agreements;
  ii. securities subject to repurchase agreements;
  iii. securities subject to dollar repurchase agreements; and
  iv. securities subject to dollar reverse repurchase agreements; and

The Company is not in compliance with SSAP No. 45, paragraph 18.

It is recommended that the Company comply with SSAP No. 45, paragraph 18 and disclose all information pertaining to any repurchase agreements, as required by the stated SSAP, held at year end in the Notes to the Financial Statements section of each annual statement filed with this Department.

H. <u>Directors and Officers Liability Policy</u>

Regulation 110 (NYCCR Part 72.4) specifies the retention amount and a coinsurance percentage that each insurer is to hold on a Directors and Officers Liability Policy. For a Company of this size, WCIC is required to carry minimum retention amounts of $4,000 individual and $40,000 aggregate, with a minimum co-insurance percentage of .4%. After a review, it was revealed that the retention on the Company's Directors and Officers Liability policy met the required minimum of $40,000. However, the policy did not include a coinsurance clause containing the minimum coinsurance percentage of 0.4% as required by Regulation 110 for a Company of this size.

It is recommended that the Company comply with Regulation 110 (NYCRR Part 72.4) and include a coinsurance clause on its Directors and Officers Liability Policy.

3. FINANCIAL STATEMENTS

A. Balance Sheet

The following shows the assets, liabilities and surplus as regards policyholders as determined by this examination as of December 31, 2003 and as reported by the Company:

Assets	Assets	Assets Not Admitted	Net Admitted Assets
Bonds	$ 10,253,233	$ -0-	$ 10,253,233
Preferred stocks (stocks)	427,080	-0-	427,080
Common stocks (stocks)	879,568	-0-	879,568
Real estate occupied by company	435,337	-0-	435,337
Cash and short-term investments	763.576	-0-	763,576
Subtotals, cash and invested assets	$ 12,758,794	$-0-	$ 12,758,794
Investment income due and accrued	127,047	-0-	127,047
Premiums and agents' balances in course of collection	179,516	-0-	179,516
Deferred premiums, agents' balances and installments booked but deferred and not yet due	814,049	-0-	814,049
Federal and foreign income tax recoverable	320,548	-0-	320,548
Net deferred tax asset	342,202	-0-	342,202
Other assets nonadmitted	88,345	88,345	-0-
Aggregate write-ins for other than invested assets	27,646	-0-	27,646
Total Assets	$14,658,147	$88,345	$14,569,802

Liabilities, surplus and other funds

Losses and loss adjustment expenses		$3,669,838
Commissions payable, contingent commissions and other similar charges		310,604
Other expenses (excluding taxes, licenses and fees)		40,084
Unearned premiums		4,270,411
Advance premium		176,372
Ceded reinsurance premiums payable (net of ceding commissions)		144,934
Amounts withheld or retained by company for account of others		45,069
Aggregate write-ins for liabilities		196,213
Total liabilities		$8,853,525
Aggregate write-ins for special surplus funds	$ 100,000	
Unassigned funds (surplus)	5,616,277	
Surplus as regards policyholders		$ 5,716,277
Total liabilities, surplus and other funds		$14,569,802

Note: The Internal Revenue Service has not performed an audit of the Company's Federal Income Tax returns through tax year 2003. The examiner is unaware of any potential exposure of the Company to any tax assessment and no liability has been established herein relative to such contingency.

B. Underwriting and Investment Exhibit

Surplus as regards policyholders increased $439,294 during the five-year examination period January 1, 1999 through December 31, 2003, detailed as follows:

Underwriting Income		
Premiums earned		$ 26,343,689
Deductions:		
Losses and loss adjustment expenses incurred	$19,625,598	
Other underwriting expenses incurred	9,512,829	
Total underwriting deductions		29,138,427
Net underwriting gain or (loss)		($ 2,794,738)
Investment Income		
Net investment income earned	$ 2,977,819	
Net realized capital loss	(17,370)	
Net investment gain or (loss)		2,960,449
Other Income		
Net gain or (loss) from agents' or premium balances charged off	$ 274	
Finance and service charges not included in premiums	409,648	
Aggregate write-ins for miscellaneous income	6,636	
Total other income		416,558
Net income before federal and foreign income taxes		$ 582,269
Federal and foreign income taxes incurred		278,859
Net Income		$ 303,410

	Gains in Surplus	Losses in Surplus	
Surplus as regards policyholders per report on examination as of December 31, 1998			$ 5,276,983
Net income	$ 303,410		
Net unrealized capital gains or (losses)		$ 104,987	
Change in net deferred income tax	61,663		
Change in nonadmitted assets		9,421	
Cumulative effect of changes in accounting principles	189,899		
Aggregate write-ins for gains and losses in surplus		1,270	
Net increase in surplus			439,294
Surplus as regards policyholders per report on examination as of December 31, 2003			$ 5,716,277

4. LOSSES AND LOSS ADJUSTMENT EXPENSES

The examination liability for the captioned items of $3,669,838 is the same as reported by the Company as of December 31, 2003. The examination analysis was conducted in accordance with generally accepted actuarial principles and practices and was based on statistical information contained in the Companies internal record and in its filed annual statements.

5. MARKET CONDUCT ACTIVITIES

In the course of this examination, a review was made of the manner in which the Company conducts its business and fulfills its contractual obligations to policyholders and claimants. The review was general in nature and is not to be construed to encompass the more precise scope of a market conduct investigation.

The general review was directed at practices of the Company in the following areas:

A Sales and advertising
B Underwriting
C Rating
D Claims and complaint handling

No unfair practices were encountered.

6. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

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

ITEM	PAGE NO.
i. It is recommended that the Company adhere to all the provisions of its charter and by-laws, henceforth.	5
The Company has complied with this recommendation	
ii. It is recommended that the Company adhere to all the provisions of the New York Business Corporation Law in the future.	5
The Company has complied with this recommendation	
Allocation of Expenses	
Management is directed to establish and maintain written documentation supporting the allocation of each expense category to the major expense groups as required by Department Regulation 30	11
The Company has complied with this recommendation.	

ITEM	PAGE NO.
Written disaster and recovery plan	
It is recommended that the Company develop a written disaster/backup and recovery plan in order to strengthen its electronic data processing function controls	11
The Company has complied with this recommendation.	
Approval of Investments	
i. It is recommended that the Company comply with the requirements of Section 1411(a) of the New York Insurance Law by having all of its investments authorized or approved as indicated in such section.	12
The Company has complied with this recommendation	
ii. It is recommended that the Company comply with the requirements of Section 4411(a) of the New York Insurance Law by having all of its investments authorized or approved as indicated in such section.	12
The Company has complied with this recommendation.	
Section 1409(a) Investment Limitation	
It is recommended that the Company comply with Section 1409(a) of the New York Insurance Law by not having more than ten percent of its admitted assets invested in the securities of any one institution.	12
The Company has complied with this recommendation.	
Rental Fee for Company's Home Office	
It is recommended that the Company charge itself a reasonable rental for the occupancy Of its own building in an amount in excess of the expenses of operating same	

(including depreciation and a return on its investment). 13

The Company has complied with this recommendation.

Market Conduct Activities

i. It is recommended that the Company comply with all the provisions of Section 3403 of the New York Insurance Law and Department Regulation No. 96, henceforth. 19

The Company has complied with this recommendation.

ii. It is recommended that the Company comply with all the provisions of Section 3425and 3426 of the New York Insurance Law. 20

The Company has complied with this recommendation.

iii. It is recommended that the Company comply with the provisions of the New York Standard Mortgage Clause and Department Circular Letter No. 17(1976).

The Company has complied with this recommendation.

7. SUMMARY OF COMMENTS AND RECOMMENDATIONS

ITEM	PAGE NO.
A. Accounts and Records	
i. It is recommended that the Company comply with SSAP 26, paragraph 6 and use the scientific (constant yield) interest method in calculating amortization on bond premiums or discounts.	9
ii. It is recommended that the Company follow the annual statement instructions and complete the Notes to the Financial Statements in an accurate and proper manner.	10

ITEM	PAGE NO.
iii. It is recommended that the Company comply with SSAP NO. 45, paragraph 18 and disclose all information pertaining to any repurchase agreements, as required by the stated SSAP, held at year end in the Notes to the Financial Statements section of each annual statement filed with this Department.	10
B. Directors and Officers Liability Policy	
It is recommended that the Company comply with Regulation 110 (NYCRR Part 72.4) and include a coinsurance clause on its Directors and Officers policy.	11

Respectfully submitted,

/S/

Gerard L. Franco, CIE
Senior Insurance Examiner

STATE OF NEW YORK)
)SS:
)
COUNTY OF NEW YORK)

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

/S/

Gerard L. Franco

Subscribed and sworn to before me

this 18TH day of FEBRUARY, 2005.

/S/

DIANNE M. BURKE
Notary Public, State of New York
Qualified in Albany County
No. 01BU5076509
Commission Expires April 21, 2007

Appointment No 22245

STATE OF NEW YORK
INSURANCE DEPARTMENT

I, GREGORY V. SERIO *, Superintendent of Insurance of the State of New York, pursuant to the provisions of the Insurance Law, do hereby appoint:*

Gerard Franco

as proper person to examine into the affairs of the

Wayne Cooperative Insurance Company

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

Company

with such other information as he shall deem requisite.

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

this 10th *day of* *August, 2004

GREGORY V. SERIO
Superintendent of Insurance