# REPORT ON EXAMINATION

OF THE

CENTRAL CO-OPERATIVE INSURANCE COMPANY

AS OF

DECEMBER 31, 2013

| | |
|---|---|
| DATE OF REPORT | February 12, 2015 |
| EXAMINER | FRANK P. SCHIRALDI |

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February 12, 2015

Honorable Shirin Emami
Acting Superintendent 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 31191 dated May 6, 2014, attached hereto, I have made an examination into the condition and affairs of Central Co-operative Insurance Company as of December 31, 2013, and submit the following report thereon.

Wherever the designation “the Company” appears herein without qualification, it should be understood to indicate Central 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 6 Southgate Road, Baldwinsville, New York 13027.

## 1. SCOPE OF EXAMINATION

The Department has performed an individual examination of the Company, a single-state insurer. The previous examination was conducted as of December 31, 2008. This examination covered the five-year period from January 1, 2009 through December 31, 2013. 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 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 organized in 1883 for the purpose of transacting business as a cooperative fire insurance corporation in Onondaga County, New York. On August 11, 1970, this Department issued a certificate approving a change in the name of the Company to Onondaga Co-operative Insurance Company.

Under an Agreement of Merger approved by this Department, effective January 1, 1990, the Company merged with Cortland Co-operative Insurance Company. The surviving corporation, Onondaga Co-operative Insurance Company, at the same time converted from an assessment cooperative fire insurance company to an advance premium cooperative insurance company with a change of name to the Central 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 nine nor more than twenty-two members. The board meets four times during each calendar year. At December 31, 2013, the board of directors was comprised of the following twelve members:

| Name and Residence | Principal Business Affiliation |
|---|---|
| Warren W. Abbott<br>Baldwinsville, New York | Assistant Treasurer,<br>Central Co-operative Insurance Company |
| David W. Fraser<br>Ionia, New York | President,<br>Central Co-operative Insurance Company |
| Gary B. Gardner<br>Syracuse, New York | Cattle Consultant,<br>Alta Genetics |
| Charles J. Hinman<br>Pulaski, New York | Chairman,<br>Oswego County Mutual Insurance Company |

| Name and Residence | Principal Business Affiliation |
|---|---|
| Lee R. Hudson<br>Camillus, New York | Partner,<br>Hudson Egg Farm |
| Ronald G. Masters<br>Preble, New York | Vice Chairman and Vice President,<br>Central Co-operative Insurance Company |
| Andrew O. Metz<br>Tully, New York | Forester,<br>Cortland Forestry, LLC. |
| Inghram Plumpton<br>Jamesville, New York | Agricultural Business Man,<br>Plumpton Farms |
| Hugh R. Riehlman<br>Homer, New York | Retired |
| John E. Seymour<br>Marietta, New York | Chairman of the Board,<br>Central Co-operative Insurance Company |
| Roy E. Smith<br>Lafayette, New York | Agricultural Business Man,<br>Smith's Quality Eggs, LLC. |
| Stuart E. Young<br>Cortland, New York | Agricultural Business Man,<br>Young Farms |

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, 2013, the principal officers of the Company were as follows0:

| Name | Title |
|---|---|
| David W. Fraser | President |
| Norman W. Garrett | Secretary and Vice President |
| John E. Seymour | Chairman of the Board |
| Ronald G. Masters | Vice Chairman and Vice President |
| Lewis E. Wellington | Treasurer |
| Warren W. Abbott | Assistant Treasurer |

B. Territory and Plan of Operation

As of December 31, 2013, 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 |
| 9 | Boiler and machinery |
| 12 | Collision |
| 13 | Personal injury liability |
| 14 | Property damage liability |
| 19 | Motor vehicle and aircraft physical damage |
| 20 | Inland marine |

The Company is also authorized to accept and cede reinsurance as provided in Section 6606 of the New York Insurance Law.

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

| Calendar Year | Direct Premium Written |
|---|---|
| 2009 | $5,419,353 |
| 2010 | $5,323,656 |
| 2011 | $5,374,699 |
| 2012 | $5,545,667 |
| 2013 | $5,901,803 |

Based on the lines of business for which the Company is licensed and the Company's current capital structure, and pursuant to the requirements of Articles 13, 41 and 66 of the New York Insurance Law, the Company is required to maintain a minimum surplus to policyholders in the amount of $525,307.

The Company underwrites predominantly the homeowners multiple peril and farm owners' multiple peril lines of business, which accounted for 34% and 25%, respectively, of the 2013 direct premium writing.

The Company obtains business through approximately 100 independent agents.

C. Reinsurance

During the current examination period, the Company did not assume any reinsurance.

As of December 31, 2013, the Company had the following multi-line excess of loss reinsurance program in place:

| Type of treaty | Cession |
|---|---|
| Property<br>2 layers | $875,000 in excess of $125,000 ultimate net loss, each loss, each risk, and subject to a limit of liability to the Reinsurer of $875,000 each loss, each risk and further subject to a limit of liability to the Reinsurer of $2,125,000 each loss occurrence. |
| Casualty<br>2 layers | $875,000 in excess of $125,000 ultimate net loss, each loss occurrence, subject to a limit of liability to the Reinsurers of $875,000, except that for personal liability insurance losses, the limit to the Reinsurer is $975,000. |
| Casualty Clash | $2,000,000 in excess of $1,000,000 ultimate net loss, each loss occurrence, subject to a limit of liability to the Reinsurer of $2,000,000 each occurrence. |
| Property Casualty Combined | If a loss involves at least one property and one casualty policy, $125,000 in excess of $125,000 ultimate net loss each loss occurrence. Recoveries under the Property and Casualty coverages above shall reduce the ultimate net loss subject to the combined coverage. |
| Aggregate Excess of Loss | 100% of the ultimate net loss over and above an initial ultimate net loss equal to 62.5% of the Company’s net earned premium income, subject to a limit of liability to the Reinsurer of $1,000,000. |

As of December 31, 2013, the Company had the following facultative program in place:

| Treaty | Cessions |
|---|---|
| Property Facultative | Cessions limited to six (6) times the Company’s net retention plus the amount ceded to the Company’s working reinsurance contracts, subject to a minimum net retention of $125,000 and to a maximum cession hereunder of $1,500,000 on any one risk. |

| | |
|---|---|
| Casualty Facultative | 100% of ultimate net loss in excess of $1,000,000 each loss occurrence, each policy, subject to a limit of liability to the Reinsurer of $1,000,000 each loss occurrence, each policy. |

As of December 31, 2013, the Company had the following property catastrophe reinsurance program in place:

| Treaty | Cessions |
|---|---|
| First catastrophe<br>3 layers | $4,300,000 in excess of $200,000 ultimate net loss, each loss occurrence, subject to a limit of liability to the Reinsurer of $4,300,000. No claim shall be made unless the loss occurrence involves three of more risks. |
| Other catastrophe(s) | In the event that the Company experiences an ultimate net loss of at least $200,000 or more for any one loss occurrence, the Reinsurer shall be liable in respect of any other loss occurrence for 100% of the ultimate net loss over and above an initial ultimate net loss of $100,000 each loss occurrence, subject to a limit of liability to the Reinsurer of $900,000 each loss occurrence, and further subject to an aggregate limit of liability from all loss occurrences to the Reinsurer of $1,700,000 |

As of December 31, 2013, the Company ceded 100% of its boiler and machinery net liability.

All of the Company’s cessions in 2013 were to authorized or accredited reinsurers. It is noted that the Company’s retention has increased from $100,000 to $125,000 on both its property and casualty lines of business during the examination period.

All 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 of the Schedule F data reported by the Company in its filed annual statement was found to accurately reflect 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 President 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 paragraphs 18 through 27 of SSAP No. 62R.

During the period covered by this examination, the company did not commute any reinsurance agreements.

D. Holding Company System

The Company was not a member of any holding company system as of December 31, 2013.

E. Significant Operating Ratios

The following ratios have been computed as of December 31, 2013, based upon the results of this examination:

| | |
|---|---|
| Net premiums written to surplus as regards policyholders | 60% |
| Liabilities to liquid assets (cash and invested assets less investments in affiliates) | 36% |
| 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:

| | Amounts | Ratios |
|---|---|---|
| Losses and loss adjustment expenses incurred | $ 9,753,960 | 44.30% |
| Other underwriting expenses incurred | 8,829,103 | 40.10 |
| Net underwriting gain | 3,432,488 | 15.60 |
| Premiums earned | $22,015,551 | 100.00% |

F. Accounts and Records

Earned but Unbilled Premiums

The review of premiums earned but unbilled ("EBUB") during the examination period revealed that the Company was not in compliance with paragraphs 9 through 12, of the NAIC Accounting Practices and Procedures Manual, Statements of Statutory Accounting Principles ("SSAP") No. 53. In particular, the Company did not report any EBUB for those policies which are audited upon completion of the policy period. In addition, the Company did not record any related liabilities, nor did it non-admit 10% of the EBUB in excess of any collateral held for each of these policies.

It is recommended that the Company comply with SSAP No. 53, paragraphs 9 through 12, by recording an estimated amount of EBUB for those policies which are audited upon completion of the policy period. It is also recommended that the Company establish all requisite liabilities associated with this asset, and that the Company non-admit 10% of the EBUB in excess of any collateral held for each of these policies.

G. Market Conduct

In the course of this examination, a review was made of all Market Conduct findings from the previous examination. No issues were noted except for the item below regarding updating of rate filings.

Updating of Rate Filings

The review of the updating of rate filings revealed that the Company did not comply with Part 161.7(c) of Department Regulation 129, which states:

"No rate filing, whether made by an insurer or by a rate-service organization, and whether or not prior approval is required, shall remain effective for use (or deviation) by insurers more than three years after the effective date of the particular insurer's or rate service organization's rate filing. Every insurer and rate service organization shall update each of its rate filings, or file a statement with the department that its analysis indicates that no updating is appropriate, at least once every three (3) years."

The Company did not update all of its rate filings every three years, or file a statement with the Department indicating that its analysis had shown that no updating was required. It is recommended that the Company comply with Part 161.7(c) of Department Regulation 129 by either updating its rate filings at least once every three years, or filing a statement with the Department indicating that its analysis had shown that no updating was required.

## 3. FINANCIAL STATEMENTS

### A. Balance Sheet

The following shows the assets, liabilities and surplus as regards policyholders as of December 31, 2013 as determined by this examination and as reported by the Company:

| Assets | Examination Net Admitted Assets | Company Net Admitted Assets | Increase (Decrease) |
|---|---|---|---|
| Bonds | $ 8,080,865 | $ 8,080,865 | $ 0 |
| Common stocks (stocks) | 2,877,387 | 2,877,387 | 0 |
| Properties occupied by the company | 176,401 | 176,401 | 0 |
| Cash, cash equivalents and short-term investments | 1,299,464 | 1,299,464 | 0 |
| Investment income due and accrued | 48,111 | 48,111 | 0 |
| Uncollected premiums and agents' balances in the course of collection | 47,838 | 47,838 | 0 |
| Deferred premiums, agents' balances and installments booked but deferred and not yet due | 1,144,694 | 1,144,694 | 0 |
| Funds Held by Fair Plan | 65,559 | 65,559 | 0 |
| Prepaid Pension Obligation | 0 | 536,198 | (536,198) |
| Total assets | $13,740,319 | $14,276,517 | |

| Liabilities, surplus and other funds | Examination | Company | Surplus Increase (Decrease) |
|---|---|---|---|
| Losses and loss adjustment expenses | $ 1,700,316 | $ 1,700,316 | $0 |
| Commissions payable, contingent commissions and other similar charges | 499,484 | 499,484 | 0 |
| Other expenses (excluding taxes, licenses and fees) | 43,038 | 43,038 | 0 |
| Current federal and foreign income taxes | 45,739 | 45,739 | 0 |
| Net deferred tax liability | 102,100 | 102,100 | 0 |
| Unearned premiums | 3,068,081 | 3,068,081 | 0 |
| Advance premium | 68,662 | 68,662 | 0 |
| Ceded reinsurance premiums payable (net of ceding commissions) | 4,588 | 4,588 | 0 |
| Amounts withheld or retained by company for account of others | 4,796 | 4,796 | 0 |
| Total liabilities | $ 5,536,804 | $ 5,536,804 | $0 |
| | | | |
| Aggregate write-ins for special surplus funds | $525,289 | 525,289 | $0 |
| Unassigned funds (surplus) | 7,678,226 | 8,214,424 | (536,198) |
| | | | |
| Surplus as regards policyholders | $8,203,515 | $8,739,713 | $(536,198) |
| | | | |
| Total liabilities, surplus and other funds | $13,740,319 | $14,276,517 | |

Note: The Internal Revenue Service did not audit the Company's federal income tax returns for the years under examination. 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, was $3,550,526 as detailed below:

| | | |
|---|---|---|
| Underwriting Income | | |
| Premiums earned | | $22,015,551 |
| Deductions: | | |
| Losses and loss adjustment expenses incurred | $9,753,960 | |
| Other underwriting expenses incurred | 8,829,103 | |
| Total underwriting deductions | | 18,583,063 |
| Net underwriting gain or (loss) | | $ 3,432,488 |
| Investment Income | | |
| Net investment income earned | $1,089,548 | |
| Net realized capital gain (loss) | (9,826) | |
| Net investment gain or (loss) | | 1,079,722 |
| Other Income | | |
| Net gain or (loss) from agents' or premium balances charged off | $ 17,824 | |
| Finance and service charges not included in premiums | 393,033 | |
| Aggregate write-ins for miscellaneous income | (13,114) | |
| Total other income | | $ 397,743 |
| Net income before federal and foreign income taxes | | $ 4,909,953 |
| Federal and foreign income taxes incurred | | 1,359,427 |
| Net Income | | $ 3,550,526 |

C. Capital and Surplus

Surplus as regards policyholders increased $3,833,752 during the five-year examination period January 1, 2009 through December 31, 2013, detailed as follows:

| | | | |
|---|---|---|---|
| Surplus as regards policyholders per report on examination as of December 31, 2008 | | | $4,369,763 |
| | Gains in Surplus | Losses in Surplus | |
| Net income | $3,550,526 | | |
| Net unrealized capital gains or (losses) | 914,846 | | |
| Change in net deferred income tax | | 235,214 | |
| Change in non-admitted assets | | 504,573 | |
| Aggregate write-ins for gains and losses in surplus | 108,167 | | |
| Total gains and losses | $4,573,539 | $739,787 | |
| Net increase (decrease) in surplus | | | 3,833,752 |
| Surplus as regards policyholders per report on examination as of December 31, 2013 | | | $8,203,515 |

## 4. LOSSES AND LOSS ADJUSTMENT EXPENSES

The examination liability for the captioned items of $1,700,316 is the same as reported by the Company as of December 31, 2013. 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 SSAP No. 55.

## 5. PREPAID PENSION OBLIGATION

The examination admitted asset for the captioned item of $0 is $536,198 less than the amount reported by the Company at December 31, 2013.

The change is due to the guidance provided in paragraph 25 of SSAP No. 102, which states in part, "[i]f the fair value of plan assets exceeds the projected benefit obligation, the employer shall recognize in its statement of financial position an asset that equals the overfunded projected benefit obligation. This prepaid asset resulting from the excess of the fair value of plan assets over the projected benefit obligation shall be non-admitted."

It is recommended that the Company comply with paragraph 25 of SSAP No. 102 by non-admitting the prepaid pension obligation in all future filings with this Department.

## 6. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

The prior report on examination contained 12 recommendations as follows (page numbers refer to the prior report):

| ITEM | | PAGE NO. |
|---|---|---|
| A. | Reinsurance | |
| | It was recommended that the Company comply with the NAIC Annual Statement Instructions by completing Schedule F, Part 3 correctly by reinsurer in all future filings with this Department. | 8 |
| | The Company has complied with this recommendation. | |
| B. | Accounts and Records | |
| i. | It was recommended that the Company comply with Section 1411(a) of the New York Insurance Law by having its board of directors or a committee thereof responsible for making such investments, approve all investment transaction henceforth. | 9 |
| | The Company has complied with this recommendation. | |
| ii. | It was recommended that the Company comply with Section 6611(a)(4)(C) of the New York Insurance Law by either having two officers sign all checks or having one officer sign checks upon written order of another officer, except as otherwise provided by resolution of the Company's board of directors or in its by-laws for handling of miscellaneous expenses | 10 |
| | The Company has complied with this recommendation. | |
| iii. | It was recommended that the Company comply with Part 107.4 of Department Regulation No. 30 by using the method to allocate expenses to expense groups that yields the most accurate results. | 10 |
| | The Company has complied with this recommendation. | |
| iv. | It was further recommended that the Company maintain documentation for the method used. | 10 |
| | The Company has complied with this recommendation. | |
| v. | It was recommended that the Company comply with SSAP No. 6, paragraph 9a., by non-admitting all future premium amounts due, to the extent that there was no related unearned premium, that were recorded on policies for which one installment was more than ninety days past due. | 11 |

The Company has complied with this recommendation.

vi. It was recommended that the Company comply with SSAP No. 53, paragraphs 9 through 12 by recording the estimated amount of EBUB for those policies which are audited upon completion of the policy period. 11

The Company has not complied with this recommendation. A similar comment is made in this report.

vii. It was recommended that the Company establish all requisite liabilities associated with this asset, and that the Company non-admit 10% of the EBUB in excess of any collateral held for each of these policies. 11

The Company has not complied with this recommendation. A similar comment is made in this report.

C. Market Conduct

i. It was recommended that the Company comply with Section 3425(c)(2)(E) of the New York Insurance Law by only cancelling policies under this section when there is a physical change in the property 16

The Company has complied with this recommendation.

ii. It was recommended that the Company comply with Part 161.7(c) of Department Regulation 129 by wither updating its rate filings at least once every three years, or filing a statement with the Department indicating that its analysis had shown that no updating was required. 16

The Company has not complied with this recommendation. A similar comment is made in this report.

iii. It was recommended that the Company comply with Part 160.2(g) of Department Regulation 57 by establishing adequate procedures to minimize the occurrence of improperly charged rates including maintaining documentation of any testing that is done. 17

The Company has complied with this recommendation.

iv. It was recommended that the Company comply with Part 62.2(b) of Department Regulation 96 by reporting all fire losses that exceed $1,000 to PILR within 5 business days following receipt of notice of loss. 17

The Company has complied with this recommendation.

## 7. SUMMARY OF COMMENTS AND RECOMMENDATIONS

| ITEM | | PAGE NO. |
|---|---|---|
| A. | Accounts and Records | 9 |
| | i. It is recommended that the Company comply with SSAP No. 53, paragraphs 9 through 12, by recording an estimated amount of EBUB for those policies which are audited upon completion of the policy period. | |
| | ii. It is also recommended that the Company establish all requisite liabilities associated with this asset, and that the Company non-admit 10% of the EBUB in excess of any collateral held for each of these policies. | 9 |
| B. | Market Conduct<br>It is recommended that the Company comply with Part 161.7(c) of Department Regulation 129 by either updating its rate filings at least once every three years, or filing a statement with the Department indicating that its analysis had shown that no updating was required. | 9 |
| C. | Pension Obligation<br>It is recommended that the Company comply with paragraph 25 of SSAP No. 102 by non-admitting the Prepaid pension obligation in all future filings with this Department. | 15 |

Respectfully submitted,

_____________/s/____________
Frank P. Schiraldi
Senior Insurance Examiner

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

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

_____________/s/____________
Frank P. Schiraldi

Subscribed and sworn to before me

this__________ day of ____________________, 2015.

*APPOINTMENT NO. 31191*

*NEW YORK STATE*

# *DEPARTMENT OF FINANCIAL SERVICES*

*I, **BENJAMIN M. LAWSKY**, Superintendent of Financial Services of the State of New York, pursuant to the provisions of the Financial Services Law and the Insurance Law, do hereby appoint:*

***Frank Schiraldi***

*as a proper person to examine the affairs of the*

***Central 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 6th day of May, 2014*

*BENJAMIN M. LAWSKY*
*Superintendent of Financial Services*

*By:*

*Rolf Kaumann*
*Deputy Chief Examiner*