

REPORT ON EXAMINATION

OF THE

CLAVERACK COOPERATIVE INSURANCE COMPANY

AS OF

DECEMBER 31, 2008

DATE OF REPORT

DECEMBER 31, 2009

EXAMINER

JOHN CONLEY

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

December 31, 2009

Honorable James J. Wrynn
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 30371 dated August 14, 2009 attached hereto, I have made an examination into the condition and affairs of Claverack Cooperative Insurance Company as of December 31, 2008, and submit the following report thereon.

Wherever the designations “the Company” or “Claverack” appear herein without qualification, they should be understood to indicate Claverack Cooperative Insurance Company.

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

The examination was conducted at the Company’s home office located at 271 Roxbury Road, Hudson, New York 12534.

1. SCOPE OF EXAMINATION

The Department has performed a single-state examination of Claverack Cooperative Insurance Company. The previous examination was conducted as of December 31, 2003. This examination covered the five-year period from January 1, 2004 through December 31, 2008. 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, 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 Financial Condition Examiners Handbook of the NAIC:

- Significant subsequent events
- Company history
- Corporate records
- Management and control
- Fidelity bonds and other insurance
- Territory and plan of operation
- Growth of Company
- Loss experience
- Reinsurance
- Accounts and records
- 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 1857 to transact business as an assessment co-operative fire insurance company in the Town of Claverack, Columbia County, New York. In 1949, the territory was extended to include all of Columbia County. In 1957, a merger was effected between the Company and the Livingston Town Insurance Company, of Livingston, New York, with the Claverack Town Fire Insurance Company being the surviving corporation.

The Department issued a certificate on February 8, 1971 authorizing the Company to change its name from The Claverack Town Fire Insurance Company to Claverack Cooperative 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 eleven members. The board met at least four times during each calendar year thereby complying with Section 6624(b) of the New York Insurance Law. At December 31, 2008, the board of directors was comprised of the following eleven members:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Sidney Byron Millerton, NY	Secretary and Treasurer, Farmers Mutual Insurance Company of Milan, Pine Plains & Stanford
Katherine Buckley Hudson, NY	Assistant Secretary and Assistant Treasurer, Claverack Cooperative Insurance Company
Elizabeth Dolan Hudson, NY	Teacher
Anna Enright Hyde Park, NY	Retired
John Hess Claverack, NY	Second Vice President, Claverack Cooperative Insurance Company

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Maureen Hess Claverack, NY	Secretary and Treasurer, Claverack Cooperative Insurance Company
Floyd Merrifield Jr. Claverack, NY	Apple Farmer
Barry Miller Salem, NY	Principal, The Kinney Agency
Kristin Plaia Claverack, NY	School psychologist
Martin Schroeder Livingston, NY	Retired Farmer
Joan Simard Hillsdale, NY	Retired, Former Bank Manager

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, 2008, the principal officers of the Company were as follows:

<u>Name</u>	<u>Title</u>
Floyd Merrifield Jr.	President
Maureen Hess	Secretary and Treasurer
Elizabeth Dolan	Vice President
John Hess	Second Vice President
Katherine Buckley	Assistant Secretary and Assistant Treasurer

B. Territory and Plan of Operation

As of December 31, 2008, 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.

The Company writes only in New York State.

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
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)

Paragraphs 5, 6, 7, 8, 13, 14 and 15 can be written solely in conjunction with fire insurance written under the same policy and covering the same premises. The Company is also licensed to accept and cede reinsurance as provided in Section 6606 of the New York Insurance Law.

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 Company writes predominantly commercial multiple peril, homeowners multiple peril, and farmowners multiple peril policies, which accounted for 50.39%, 37.37% and 9.94%, respectively, of the 2008 direct premiums written. The business is produced through approximately 60 independent agents and brokers.

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

<u>Calendar Year</u>	<u>Direct Premiums Written</u>
2004	\$2,774,775
2005	\$2,641,953
2006	\$2,456,442
2007	\$2,195,131
2008	\$1,951,893

C. Reinsurance

During the period under examination the Company did not assume any reinsurance business.

As of December 31, 2008, the Company had the following ceded reinsurance program in place:

<u>Type of treaty</u>	<u>Cession</u>
<u>Multiline excess of loss</u>	
First layer	
Section A - Property	\$70,000 in excess of \$30,000 net loss each risk. \$210,000 ultimate net loss per occurrence.
Section B - Inland Marine	\$70,000 in excess of \$30,000 net loss each risk. \$210,000 ultimate net loss per occurrence.
Section C - Casualty	\$80,000 in excess of \$20,000 net loss per occurrence.
Section D - Contingency for Property, Inland Marine and Casualty-Combination	\$20,000 in excess of \$30,000 net loss per occurrence.
Second Layer	
Section A - Property	\$250,000 in excess of \$100,000 net loss each risk. \$500,000 ultimate net loss per occurrence.
Section B - Inland Marine	\$250,000 in excess of \$100,000 each risk. \$500,000 ultimate net loss per occurrence.
Section C - Casualty	\$425,000 in excess of \$100,000 net loss per occurrence. Medical Payments - \$25,000 ultimate net loss per occurrence.
Casualty Clash Excess of Loss	\$500,000 in excess of \$500,000 each loss occurrence.
Catastrophe excess of loss 3 layers	\$2,525,000 in excess of \$75,000 each loss occurrence.
Non-Obligatory Property Surplus and Casualty Excess Cessions	Property: \$500,000 in excess of \$250,000 net loss per risk plus reinsurers' pro-rata share of loss expense. Reinsurers maximum liability \$1,000,000 in any one loss occurrence plus reinsurers' pro-rata share of loss expense. Casualty: \$500,000 in excess of \$500,000 each loss occurrence, plus reinsurers' proportionate share of loss expense.

The Company's cessions during 2008 were to authorized or accredited reinsurers.

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.

The Schedule F - Part 3 reported by the Company in its filed 2008 annual statement was found to be inaccurate. In particular, the Company did not report items recoverable from certain reinsurers, but instead combined these amounts with amounts due from other reinsurers. It is noted that the total amount of reinsurance recoverable reported was correct.

It is recommended that the Company comply with the NAIC Annual Statement Instructions by completing Schedule F - Part 3 correctly in all future filings with this Department.

Management has represented that all material ceded reinsurance agreements transfer both underwriting and timing risk as set forth in the NAIC Accounting Practices and Procedures Manual, Statement of Statutory Accounting Principles ("SSAP") No. 62. 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 paragraphs 18 through 25 of SSAP No. 62.

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

D. Holding Company System

As of December 31, 2008, 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, 2008, based upon the results of this examination:

Net premiums written to surplus as regards policyholders	.61:1
Liabilities to liquid assets (cash and invested assets less investments in affiliates)	62%

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	\$3,917,858	55.18%
Other underwriting expenses incurred	2,889,174	40.69%
Net underwriting gain	<u>293,599</u>	<u>4.13%</u>
Premiums earned	<u>\$7,100,631</u>	<u>100.00%</u>

Management Expense Ratio

The examiner's calculation of the management expense ratio revealed that the Company was not in compliance with Section 6613(a) of the New York Insurance Law for 2008. The Company's ratio was 48.33%.

Section 6613(a) states, in part, that:

“The expenses of management of any co-operative property/casualty insurance company shall not exceed in any one calendar year forty-two and one-half percent of its net premiums written for such year...”

It is recommended that the Company comply with Section 6613(a) of the New York Insurance Law and make efforts to bring its management expenses to within the limits allowed by this specific section. It is noted that a similar recommendation was included in the prior report on examination.

F. Accounts and Records

i. Incorrect transaction dates used

The examiner's review of a sample of trade advices for purchases and sales of securities revealed that securities transactions were sometimes recorded on the settlement date.

In accordance with paragraph 4 of Statement of Statutory Accounting Principles (“SSAP”) No. 26, paragraph 5 of SSAP No. 30 and paragraph 10 of SSAP No. 32, bonds, common stocks and preferred stocks, respectively, shall be recorded on the trade date, not the settlement date.

Thus, it is recommended that securities transactions be recorded in the annual statement on the trade date in accordance with SSAP No. 26, SSAP No. 30 and SSAP No. 32. It is noted that a similar recommendation was included in the prior report on examination.

ii. Classification of annual statement lines

The review of the accounts that comprise Page 3, Line 5 - Other Expenses (excluding taxes, licenses, and fees) in the Company’s filed 2008 annual statement showed that the Company incorrectly included payroll tax withholdings.

In accordance with the NAIC Annual Statement instructions, employees’ withholdings should be included on Page 3, Line 14 - Amounts withheld or retained by company for account of others.

It is recommended that the Company classify accounts correctly in accordance with the NAIC Annual Statement instructions in all future financial statements filed with the Department. It is noted that a similar recommendation was included in the prior report on examination.

iii. Investment Limitation

Section 1409(a) of the New York Insurance Law states, in part, that:

“...no domestic insurer shall have more than ten percent of its admitted assets as shown by its last statement on file with the superintendent invested in, or loaned upon, the securities (including for this purpose certificates of deposit, partnership interests and other equity interests) of any one institution.”

The Company had a certificate of deposit with Canandaigua National Bank and Trust with a balance of \$755,695 as of December 31, 2008. This deposit exceeded 10% of the Company’s admitted assets as shown on its last statement on file with this Department.

Thus, it is recommended that the Company comply with Section 1409(a) of the New York Insurance Law and limit its investment in any one institution to 10% of its admitted assets.

3. FINANCIAL STATEMENTSA. Balance Sheet

The following shows the assets, liabilities and surplus as regards policyholders as of December 31, 2008. This statement is the same as the balance sheet filed by the Company:

<u>Assets</u>	<u>Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>
Bonds	\$1,169,326	\$ 0	\$1,169,326
Preferred stocks	51,139		51,139
Common stocks	62,142		62,142
Cash, cash equivalents and short-term investments	2,317,396		2,317,396
Investment income due and accrued	11,721		11,721
Uncollected premiums and agents' balances in course of collection	23,094	4,060	19,034
Deferred premiums, agents' balances and installments booked but deferred and not yet due	265,699		265,699
Amounts recoverable from reinsurers	316,198		316,198
Current federal and foreign income tax recoverable and interest thereon	6,771		6,771
Net deferred tax asset	139,621	74,208	65,413
Furniture and equipment	3,144	3,144	0
Prepaid expense	<u>10,005</u>	<u>10,005</u>	<u>0</u>
Total assets	<u>\$4,376,256</u>	<u>\$91,417</u>	<u>\$4,284,839</u>

Liabilities, Surplus and Other FundsLiabilities

Losses and loss adjustment expenses	\$ 632,824
Commissions payable, contingent commissions and other similar charges	61,376
Other expenses (excluding taxes, licenses and fees)	12,883
Taxes, licenses and fees (excluding federal and foreign income taxes)	535
Unearned premiums	756,115
Advance premium	46,645
Ceded reinsurance premiums payable (net of ceding commissions)	130,668
Funds held by company under reinsurance treaties	425,644
Remittances and items not allocated	4,178
Pension liability	<u>179,509</u>
 Total liabilities	 \$2,250,377

Surplus and Other Funds

Unassigned funds (surplus)	\$1,934,462
Minimum surplus requirement	<u>100,000</u>
 Surplus as regards policyholders	 <u>2,034,462</u>
 Total liabilities, surplus and other funds	 <u>\$4,284,839</u>

NOTE: The Internal Revenue Service did not audit the Company's federal income tax returns for the years under examination. Audits covering subsequent years have yet to commence. 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 \$676,535 during the five-year examination period January 1, 2004 through December 31, 2008, detailed as follows:

Underwriting Income

Premiums earned		\$7,100,631
Deductions:		
Losses and loss adjustment expenses incurred	\$3,917,858	
Other underwriting expenses incurred	<u>2,889,174</u>	
Total underwriting deductions		<u>6,807,032</u>
Net underwriting gain or (loss)		\$ 293,599

Investment Income

Net investment income earned	\$ 429,849	
Net realized capital gains	<u>3,771</u>	
Net investment gain or (loss)		433,620

Other Income

Net gain (loss) from agents' or premium balances charged off	\$ 4,581	
Finance and service charges not included in premiums	293,908	
Aggregate write-ins for miscellaneous income	<u>79,909</u>	
Total other income		<u>378,398</u>
Net income before federal and foreign income taxes		\$1,105,617
Federal and foreign income taxes incurred		<u>332,059</u>
Net iIncome		\$ <u>773,558</u>

Surplus as regards policyholders per report on examination as of December 31, 2003			\$1,357,927
	<u>Gains in Surplus</u>	<u>Losses in Surplus</u>	
Net income	\$773,558		
Net unrealized capital gains or losses		\$ 59,781	
Change in net deferred income tax	60,917		
Change in non-admitted assets		51,574	
Change in minimum pension accrual		53,178	
Miscellaneous adjustments	2,209		
Prior period adjustments (premium receivable)	<u>4,384</u>	<u>0</u>	
Total gains or losses in surplus	<u>\$841,068</u>	<u>\$164,533</u>	
Net increase in surplus			<u>676,535</u>
Surplus as regards policyholders per report on examination as of December 31, 2008			<u>\$2,034,462</u>

4. LOSSES AND LOSS ADJUSTMENT EXPENSES

The examination liability for the captioned items of \$632,824 is the same as reported by the Company as of December 31, 2008. The examination analysis was conducted in accordance with generally accepted actuarial principles and practices and was based on statistical information contained in the Company's internal records and in its filed annual statements.

5. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

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

<u>ITEM</u>	<u>PAGE NO.</u>
A. <u>Management</u>	
i. It was recommended that board members who are unable or unwilling to attend meetings consistently should resign or be replaced.	5
The Company has complied with this recommendation.	
ii. It was recommended that, henceforth, the directors of Claverack Cooperative Insurance Company remain mindful of their fiduciary responsibilities to the Company and its policyholders, as set forth in	5 - 6

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Section 717 of the New York Business Corporation Law. In addition, the policyholders should replace any director of the Company who cannot or does not fulfill his/her duties in good faith and with that degree of care which an ordinarily prudent person in a like position would use under similar circumstances.

The Company has complied with this recommendation.

B. Reinsurance

- i. The Company only obtained the reinsurance underwriting memorandum for certain ceded reinsurance contracts to which it is a party. As a result, the insolvency clause for these contracts could not be reviewed upon examination for compliance with the requirements of Section 1308 of the New York Insurance Law. 8

The Company has addressed this comment.

- ii. It was recommended that the Company ensure that all reinsurance agreements to which it is a party are finalized, reduced to a written form and signed by the parties within nine months after commencement of the policy period covered by the arrangement. Future arrangements that are not finalized within nine months of the commencement of the policy period covered by the arrangement should be accounted for as a retroactive reinsurance agreement in accordance with SSAP No. 62, paragraph 23. 8

The Company has complied with this recommendation.

- iii. It was recommended that the Company comply with Section 6606(a)(2) of the New York Insurance Law and replace Endurance Specialty Insurance Limited with a licensed or accredited reinsurer. 9 - 10

The Company has complied with this recommendation.

C. Abandoned Property

- It was recommended that the Company comply with Section 1316(4) of the NYS Abandoned Property Law and remit the final payment for the unclaimed funds within the first ten days of September of each year. 10 - 11

The Company has complied with this recommendation.

D. Significant Operating Ratios.

Management Ratio

It was recommended that the Company comply with Section 6613 of the

11 - 12

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NYIL henceforth and make efforts to bring down its management expenses within the limits allowed by this specific section.

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

E. Accounts and Records.

- i. It was recommended that the Company ensure that the contract with its CPA complies with the requirements of Department Regulation 118. 12 - 13

The Company has complied with this recommendation.

- ii. It was recommended that securities transactions be recorded in the annual statement on their trade date in accordance with SSAP numbers 26, 30 and 32. 13

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

- iii. It was recommended that the Company formalize its contingent commission program with its agents, either by written agreement or disclosure, as this is a good business practice. 13 - 14

The Company has ceased its contingent commission program therefore this recommendation is no longer applicable.

- iv. It was recommended that the Company use correct transactions codes at all times when entering loss transactions in the system. 14

The Company has complied with this recommendation.

- v. It was recommended that in future annual statements filed with the Insurance Department, the Company classify accounts correctly to the proper annual statement lines in accordance with the NAIC annual statement instructions. 14 - 15

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

- vi. It was recommended that the Company comply with Section 6611(a)(1) of the Insurance Law and henceforth the Company retain an electronic file of accounts receivable and losses at each year-end in order that future verification of the annual statement can be facilitated. 15

The Company has complied with this recommendation.

<u>ITEM</u>		<u>PAGE NO.</u>
vii.	It was recommended that the Company enter into a lease agreement with its landlord as this indicates a good business practice. The Company has complied with this recommendation.	16
F.	<u>Loss and loss adjustment expenses</u> It was recommended that the Company provide accurate claim count data and that the Schedule P be accurately completed in all future statements filed with the Department. The Company has complied with this recommendation.	21
G.	<u>Market conduct activities</u> It was recommended that the Company fully comply with the requirements of Circular Letter 1978-11 and going forward maintain a complaint log that encompasses the eleven subject matters required in this circular letter. The Company has complied with this recommendation.	22 - 23

6. SUMMARY OF COMMENTS AND RECOMMENDATIONS

<u>ITEM</u>		<u>PAGE NO.</u>
A.	<u>Reinsurance</u> It is recommended that the Company comply with the NAIC Annual Statement Instructions by completing Schedule F - Part 3 correctly in all future filings with this Department.	7
B.	<u>Management Expense Ratio</u> It is recommended that the Company comply with Section 6613(a) of the New York Insurance Law and make efforts to bring its management expenses to within the limits allowed by this specific section. A similar recommendation was included in the previous report on examination.	8
C.	<u>Accounts and Records</u>	
i.	It is recommended that securities transactions be recorded in the annual statement on the trade date in accordance with SSAP No. 26, SSAP No. 30 and SSAP No. 32. A similar recommendation was included in the previous report on examination.	9

<u>ITEM</u>		<u>PAGE NO.</u>
ii.	It is recommended that the Company classify accounts correctly in accordance with the NAIC Annual Statement instructions in all future financial statements filed with the Department. A similar recommendation was included in the previous report on examination.	9
iii.	It is recommended that the Company comply with Section 1409(a) of the New York Insurance Law and limit its investment in any one institution to 10% of its admitted assets.	9

Respectfully submitted,

_____/s/
John Conley
Senior Insurance Examiner

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

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

_____/s/
John Conley

Subscribed and sworn to before me
this _____ day of _____, 2010.

Appointment No 30371

STATE OF NEW YORK
INSURANCE DEPARTMENT

I, Kermitt J. Brooks, Acting Superintendent of Insurance of the State of New York, pursuant to the provisions of the Insurance Law, do hereby appoint:

John Conley

as proper person to examine into the affairs of the

Claverack Cooperative Insurance Company

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

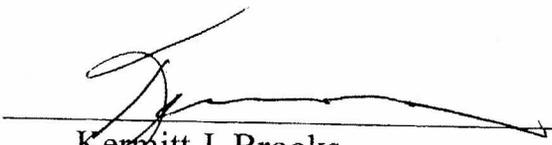
Company

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 New York,

this 14th day of August 2009




Kermitt J. Brooks
Acting Superintendent of Insurance