

REPORT ON EXAMINATION  
OF THE  
FINGER LAKES FIRE AND CASUALTY COMPANY  
AS OF  
DECEMBER 31, 2004

DATE OF REPORT

OCTOBER 28, 2005

EXAMINER

NYANTAKYI AKUOKO



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

George E. Pataki  
Governor

Howard Mills  
Superintendent

October 28, 2005

Honorable Howard Mills  
Superintendent of Insurance  
Albany, New York 12257

Sir:

Pursuant to the requirements of the New York Insurance Law, and in compliance with instructions contained in Appointment Number 22393 dated July 11, 2005 hereto, I have made an examination into the condition and affairs of Finger Lakes Fire and Casualty Company as of December 31, 2004, and submit the following report thereon.

Wherever the designations "the Company" or "FLFCC" appear herein without qualification, they should be understood to indicate Finger Lakes Fire and Casualty 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 offices located at 6905 Route 227, Trumansburg, New York 14886.

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## 1. SCOPE OF EXAMINATION

The previous examination was conducted as of December 31, 1999. This examination covered the five-year period from January 1, 2000 through December 31, 2004, and was limited in scope to these balance sheet items considered by this Department to require analysis, verification or description, including: invested assets, inter-company balances, loss and loss adjustment expense reserves and the provision for reinsurance. Transaction occurring subsequent to this period were reviewed, where deemed appropriate by the examiner. The examination included a review of income, disbursements and company records deemed necessary to accomplish such analysis or verification and utilized, to the extent considered appropriate, work performed by the Company's independent public accountants.

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, which involve departures from laws, regulations or rules, or which are deemed to require explanation or description.

## 2. DESCRIPTION OF COMPANY

Finger Lakes Fire and Casualty Company was organized on December 23, 1876 as the Patrons Fire Relief Company of Seneca County, New York for the purpose of transacting business as a co-operative fire insurance corporation in the counties of Seneca, Ontario and Schulyer in this State. On November 14, 1967, this Department issued a certificate approving a change in the name of the Company to Seneca Co-operative Insurance Company.

On November 7, 1985, this Department approved an agreement of merger between the Finger Lakes Co-operative Insurance Company and the Seneca Co-operative Insurance

Company, the surviving corporation. In accordance with this agreement, the corporate title of the Company became Finger Lakes-Seneca Co-operative Insurance Company, effective January 1, 1986.

Effective June 1, 1994, the Department approved the conversion of the Company into a non-assessable advance premium co-operative. On the same date, the Department also issued a license to the Company to do business as an advance premium co-operative.

The Department gave an approval for the Company to change its name to the Finger Lakes Fire and Casualty Company effective April 3, 1995. On August 20, 2001, the Company received the Department approval to amend its license to include boiler and machinery.

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-one members. At least four board meetings were held each year for the period under examination, thereby complying with Section 6624(b) of the New York Insurance Law ("NYIL"). At December 31, 2004, the board of directors was comprised of the following twelve members:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Thomas R. Ball Dryden, NY	Vice President, FLFCC
Valerie Bassett Interlaken, NY	Director, Economic Development Department of Geneva
John W. Benedict Trumansburg, NY	Energy Auditor, State of New York; Vice Chairman of the Board of FLFCC
David R. Eastman Ovid, NY	Crop Farmer
Stephen E. Gillette Watkins Glen, NY	Retired auto parts store owner

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Stephen C. Hall Van Etten, NY	President/CEO & Secretary, FLFCC
Thomas L. Kime Geneva, NY	Chairman of the Board, FLFCC
Lauren W. Lodge Watkins Glen, NY	Retired Executive Vice President & Secretary, F LFCC
Kathryn Smithers Ithaca, NY	Retired Assistant County Administrator, Tompkins County, New York; Treasurer FLFCC
Douglas R. Thornton Spencer, NY	U.S. Postal Service employee
Ray G. Van deBogart Willseyville, NY	Dairy farmer
Bryan G.. VonHahmann Ovid, NY	President, Empire Tractor Corporation

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. Each of the directors' qualification, as set forth in Article II Section I of the Company's by-laws and Articles IV and V of its Charter, were reviewed, and each director was found to be duly qualified.

During the period of the examination, the board did not formally appoint or approve membership to principal committees. Section 712(b) and (c) of the New York Business Corporation Law ("NYBCL") states in part that, "The board may designate one or more directors as alternate members... Each such committee shall serve at the pleasure of the board." Furthermore, Section IV of the Company's Charter states in part that, "...the board of directors shall have the power to appoint one or more committees from the board to exercise when the board is not in session." Therefore, it is recommended that the Company comply with Sections

712(b) and (c) of the NYBCL and Section IV of its Charter and have board committees approved by the board of directors.

Also during the review of the minutes of committee meetings and compensation paid to directors for attending meetings, it was discovered that no minutes of proceedings of certain meetings were kept yet committee members received fees for attending those meetings. Section 6611(a)(3) of the New York Insurance Law ("NYIL") states in part, "The secretary shall maintain a minute book recording the proceedings of all meetings of the corporation, its board of directors and the principal committees thereof." Therefore, it is recommended that the Company comply with Section 6611(a)(3) and maintain a minute book recording the proceedings of all board appointed committees.

As of December 31, 2004, the principal officers of the Company were as follows:

<u>Name</u>	<u>Title</u>
Stephen C. Hall	President/CEO & Secretary
Thomas R. Ball	Vice President
Thomas L. Kime	Chairman of the Board
John W. Benedict	Vice Chairman of the Board
Kathryn Smithers	Treasurer

B. Territory and Plan of Operation

As of December 31, 2004, 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 ("NYIL"):

<u>Paragraph</u>	<u>Line of Business</u>
4	Fire

<u>Paragraph</u>	<u>Line of Business</u>
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	Marine and inland marine

The Company is also licensed as of December 31, 2004, to accept and cede reinsurance as provided in Section 6606 of the NYIL

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

<u>Calendar Year</u>	<u>Direct Premiums Written(000's)</u>
2000	\$4,294
2001	4,934
2002	5,435
2003	6,666
2004	7,547

Based on the lines of business for which the Company is licensed and pursuant to the requirements of Articles 41 and 66 of the New York Insurance Law, the Company is required to maintain a minimum surplus to policyholders in the amount of \$424,000. The company underwrites predominantly commercial multiple peril and homeowners multiple peril lines of business, which accounted for 56% and 28% respectively, of 2004 net premium writings. The company writes direct business through independent agents.

C. Reinsurance

The company did not assume reinsurance premiums written as of December 31, 2004.



The company has structured its ceded reinsurance program to limit its maximum exposure to any one risk as follows:

Property and Inland Marine Excess of Loss (3 layers)	\$950,000 excess of \$50,000 ultimate loss each risk, not exceeding \$300,000, \$500,000 and \$1,050,000 ultimate net loss any one occurrence. In addition, if a loss occurrence takes place which combines property, inland marine and casualty business- \$50,000 excess of \$50,000 each such loss occurrence.
Casualty lines(3 layers)	\$950,000 excess of \$50,000 ultimate net loss occurrence. In addition, if a loss occurrence takes place, which involves one or more risks/insured's/policies reinsured hereunder and under First, Second and Third Property Excess of Loss \$50,000 excess of \$50,000 each such occurrence.
Casualty Clash	\$1,000,000 excess of \$1,000,000 per loss occurrence, not exceeding \$1,000,000 net loss each loss occurrence.
Property Catastrophe Excess of Loss(4 layers)	100% ultimate net loss in excess of \$250,000
	<u>First Layer Limit</u> \$1,250,000 excess of \$250,000 per loss occurrence, not exceeding \$2,500,000 for term of agreement.
	<u>Second Layer Limit</u> \$1,500,000 excess of \$1,500,000 per loss occurrence, not exceeding \$3,000,000 for term of agreement.
	<u>Third Layer Limit</u> \$2,000,000 excess of \$3,000,000 per loss occurrence, not exceeding \$4,000,000 for term of agreement.
Boiler and Machinery	100% cession not exceeding \$5,000,000 any one risk, subject to written agreement.

Umbrella Quota Share(2 layers)	95% quota shares of \$1,000,000 ultimate net loss each and every occurrence.
	100% quota share excess of \$1,000,000 ultimate net loss each and every occurrence and in aggregate, where applicable, not exceeding \$4,000,000 in any one loss occurrence and in aggregate, where applicable.

In addition to its treaty reinsurance program, the Company also obtained property facultative reinsurance coverage. The maximum cession for the program is \$1,000,000 each loss, each risk and \$2,000,000 plus the reinsurer's pro rata portion of loss expense for business classified as property. For liability, the maximum is \$1,000,000 ultimate net loss in any one occurrence.

Since the previous examination, the Company's retention has remained at \$50,000 on both property business and casualty business. A greater percentage of business written in 2004 was ceded to authorized company.

In 2003 and 2004, the Company ceded more than 50% of its unearned premiums. In order to comply with the provisions of Section 1308(e) (1) of the NYIL, the Company should have submitted its reinsurance agreements to the Department for review. During the course of the examination, the Company submitted such agreements to the Department. Nevertheless, it is recommended that the company comply with Section 1308(e)(1)(A) of the NYIL.

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 NYIL.

The examination review of the Schedule F data reported by the Company in its 2004 filed annual statement was found not to accurately reflect its reinsurance transactions. The Company ceded reinsurance to two reinsurers, but the Schedule F data reflected a cession to one reinsurer

only. Consequently, it is recommended that the Company comply with the annual statement instructions and complete Schedule F with the accurate data that reflects its reinsurance transactions.

All ceded reinsurance agreements were accounted for utilizing reinsurance accounting as set forth in paragraphs 25 and 26 of the NAIC Accounting Practices and Procedures Manual (“SSAP”) No. 62.

D. Holding Company System

As of December 31, 2004, the Company was not a member of any holding company system. The Company was independent with no affiliations or pooling agreements in force at December 31, 2004.

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 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. For the five years examination period, the Company filed abandoned property reports to comply with the law.

F. Significant Operating Ratios

The following ratios have been computed as of December 31, 2004, based upon the result of this examination:

Net premiums written to surplus as regards policyholders	56%
Liabilities to liquid assets(cash and invested assets less investments in affiliates)	41%
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 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	\$ 9,560,325	46.38%
Other underwriting expenses incurred	8,582,133	41.64%
Net underwriting loss	<u>2,468,478</u>	<u>11.98%</u>
Premiums earned	<u>\$20,610,936</u>	<u>100.00%</u>

G. Accounts and Records

i. Signature requirements

Section 6611(a)(4)(C) of the NYIL states in part that, "All checks issued shall be signed either by two officers or one officer..." During the review of the bank confirmation and the minutes of board meetings, it was discovered that a non-officer employee was listed as a signatory on the Company's checking accounts. Consequently, it is recommended that the Company comply with Section 6611(a)(4)(C) of the NYIL regarding the signature requirements on checks.

ii. Part 109.2 of Regulation 30

The Company has been allocating salaries of its employees to the various expense groups using percentage not based on actual studies. Part 109.2 of Regulation 30 states in part that, "Where possible, the salaries of individuals or similarly employed groups shall be allocated direct to companies, expense groups and primary lines of business..." The Regulation states further that, "Such records shall be readily available for examination." Therefore, it is recommended that management establish and maintain written documentation supporting the allocation of salaries to the major expense groups in accordance with Regulation 30 and make such documentation readily available for examination.

3. FINANCIAL STATEMENTSA. Balance Sheet

The following shows the assets, liabilities and surplus as regards policyholders as of December 31, 2004, as determined by this examination and as reported by the Company:

<u>Assets</u>	<u>Assets</u>	Examination Assets Not <u>Admitted</u>	Net Admitted <u>Assets</u>
Bonds	\$10,414,369	\$ 0	\$10,414,369
Preferred stocks	386,092	0	386,092
Common stocks	3,444,394	0	3,444,394
Properties occupied by the Company	329,742	0	329,742
Cash, cash equivalents and short-term Investments	<u>450,958</u>	0	<u>450,958</u>
Subtotals, cash and invested assets	\$15,025,555	\$ 0	\$15,025,555
Investment income due and accrued	113,596	0	113,596
Uncollected premiums and agents' balances in the course of collection	146,109	11,309	134,800
Deferred premiums, agents' balances and install- ments booked but deferred and not yet due	1,370,964	0	1,370,964
Accounts recoverable from reinsurers	148,168	0	148,168
Net deferred tax asset	163,000	0	163,000
Furniture and equipment, including health care delivery assets	62,486	62,486	0
Aggregate write-ins for other than invested assets	252,782	0	252,782
Totals	<u>\$17,282,660</u>	<u>\$73,795</u>	<u>\$17,208,865</u>

Liabilities, surplus and other funds

Losses and loss adjustment expenses		\$ 2,181,775
Commissions payable, contingent commissions and other similar charges		622,281
Other expenses(excluding taxes, licenses and fees)		316,463
Current federal and foreign income taxes		250,000
Unearned premiums		3,957,582
Advance premiums		91,070
Ceded reinsurance premiums payable(net of ceding commissions)		89,756
Amounts withheld or retained by company for account of others		<u>2,603</u>
Total liabilities		\$7,511,530
Aggregate write-ins for special surplus funds	424,000	
Unassigned funds(surplus)	<u>9,273,335</u>	
Surplus as regards policyholders		<u>\$ 9,697,335</u>
Totals		<u>\$17,208,865</u>

Note: The Internal Revenue Service has not yet begun to audit tax returns covering tax years 2000 through 2004. 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 \$3,547,954 during the five-year examination period, January 1, 2000 through December 31, 2004, detailed as follows:

Underwriting Income

Premiums earned		\$20,610,936
Deductions:		
Losses incurred and loss adjustment expenses incurred	\$ 9,560,325	
Other underwriting expenses incurred	<u>8,582,133</u>	
Total underwriting deductions		<u>18,142,458</u>
Net underwriting gain or(loss)		\$ 2,468,478

Investment Income

Net investment income earned	\$2,378,513	
Net realized capital gain	<u>(247,299)</u>	
Net investment gain or (loss)		\$ 2,131,214

Other Income

Net gain or (loss) from agents' or premium balances charged off	\$ 6,567	
Finance and service charges not included in premiums	243,472	
Aggregate write-ins for miscellaneous income	<u>56,864</u>	
Total other income		<u>\$ 306,903</u>
Net income before dividends to policyholders and before federal and foreign income taxes		\$4,906,595
Net income after dividends to policyholders but before federal and foreign income taxes		\$4,906,595
Federal and foreign income taxes incurred		<u>1,661,791</u>
Net income		<u>\$3,244,804</u>

Capital and Surplus

Surplus as regards policyholders per report on examination as of December 31, 1999			\$6,149,386
	<u>Gains in Surplus</u>	<u>Losses in Surplus</u>	
Net income	\$3,244,804		
Net unrealized capital gains or (losses)	136,983		
Change in net unrealized foreign exchange capital gain(loss)		\$79,000	
Change in net deferred income tax		\$19,838	
Cumulative effect of changes in accounting principles	\$265,000		
Net increase(decrease) in surplus			<u>\$3,547,949</u>
Surplus as regards policyholders per report on examination as of December 31, 2004			<u>\$9,697,335</u>

4. LOSSES AND LOSS ADJUSTMENT EXPENSES

The examination liability for the captioned items of \$2,181,775 is the same as reported by the Company as of December 31, 2004. The examination analysis was conducted in accordance with generally accepted actuarial principles and was based on statistical information contained in the Company's internal records 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, which is the responsibility of the Market Conduct Unit of the Property Bureau of this Department.

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 two recommendations as follows (page numbers refer to the prior report):

ITEM	PAGE NO.
<p>A. It was recommended that the Company prepare Schedule P in accordance with the NAIC annual statement instructions and accurately fill out all parts of Schedule P in all future financial statements submitted to this Department</p> <p>The Company has complied with this recommendation.</p>	<p>8</p>
<p>B. It was recommended that the Company comply with Section 1411( c) and lower the pledged amount to within the stated limitation.</p> <p>The Company has complied with this recommendation.</p>	<p>9</p>

7. SUMMARY OF COMMENTS AND RECOMMENDATIONS

<u>ITEM</u>	<u>PAGE NO.</u>
A. <u>Management</u>	
i. It is recommended that the Company comply with Sections 712(b) and (c) of the NYBCL and Section IV of its Charter and have board committees approved by its board of directors.	4-5
ii. It is recommended that the Company comply with Section 6611 (a)(3) and maintain a minute book recording the proceedings of all board appointed committees.	5
B. <u>Reinsurance</u>	
i. It is recommended that the company comply with Section 1308(e)(1)(A) of the NYIL.	8
ii. It is recommended that the Company comply with the annual statement instructions and complete Schedule F with the accurate data that reflects its reinsurance transactions.	9
C. <u>Accounts and Records</u>	
i. It is recommended that the Company comply with Section 6611(a)(4)(C) of the NYIL regarding the signature requirements on checks.	10
ii. It is recommended that management establish and maintain written documentation supporting the allocation of salaries to the major expense groups in accordance with Regulation 30 and make such documentation readily available for examination.	10-11

/S/  
Nyantakyi Akuoko  
Senior Insurance Examiner

STATE OF NEW YORK)  
  )SS.  
  )  
COUNTY OF ALBANY )

NYANTAKYI AKUOKO, being duly sworn, deposes and says that the foregoing report submitted is true to the best of his knowledge and belief.

/S/  
Nyantakyi Akuoko

Subscribed and sworn to before me

this 24<sup>TH</sup> day of February 2006

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

*Appointment No 22393*

**STATE OF NEW YORK  
INSURANCE DEPARTMENT**

*I, Howard Mills, Superintendent of Insurance of the State of New York,  
pursuant to the provisions of the Insurance Law, do hereby appoint:*

**Nyantakyi Akuoko**

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

**Finger Lakes Fire and Casualty Company**

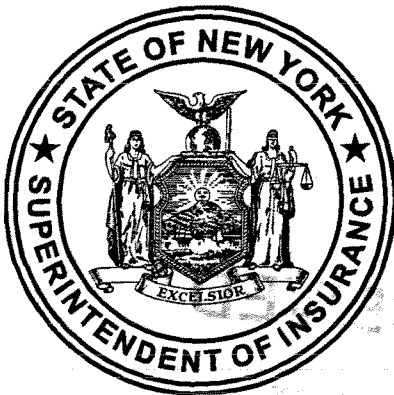
*and to make a report to me in writing of the condition of the said*

**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 11<sup>th</sup> day of July 2005*



A handwritten signature in cursive script, appearing to read "Howard Mills", written over a horizontal line.

Howard Mills  
*Superintendent of Insurance*