

REPORT ON EXAMINATION

OF THE

OSWEGO COUNTY MUTUAL INSURANCE COMPANY

AS OF

DECEMBER 31, 2003

DATE OF REPORT

APRIL 29, 2005

EXAMINER

MARIA GRACE COMSTI, CFE

## TABLE OF CONTENTS

<u>ITEM NO.</u>		<u>PAGE NO.</u>
1	Scope of Examination	2
2.	Description of Company	3
	A. Management	3
	B. Territory and plan of operation	5
	C. Reinsurance	6
	D. Holding company system	8
	E. Abandoned Property Law	9
	F. Significant operating ratios	9
	G. Accounts and records	10
3.	Financial Statements	13
	A. Balance sheet	13
	B. Underwriting and investment exhibit	15
4.	Losses	17
5.	Loss Adjustment Expenses	17
6.	Market conduct activities	17
7.	Compliance with prior report on examination	19
8.	Summary of comments and recommendations	23



STATE OF NEW YORK  
INSURANCE DEPARTMENT  
25 BEAVER STREET  
NEW YORK, NEW YORK 10004

April 29, 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 22244 dated July 23, 2004 attached hereto, I have made an examination into the condition and affairs of Oswego County Mutual Insurance Company as of December 31, 2003, and submit the following report thereon.

The examination was conducted at the Company's home office located at 2975 W. Main Street, Parish, New York 13131.

Wherever the designations "the Company" or "OCMIC" appear herein without qualification, they should be understood to indicate Oswego County Mutual Insurance Company.

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

## 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 those 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. 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 certified public accountants. Transactions occurring subsequent to this period were reviewed where deemed appropriate by the examiner.

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

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 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

The Company was organized in March of 1878 for the purpose of transacting business as an assessment co-operative fire insurance Company in Oneida and Oswego County in this State.

On August 12, 1970, a certificate was issued by this Department authorizing the Company to change its name from The Fire Relief Association of Oswego County to Oswego County Mutual 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 twelve or more than eighteen members. The board met four times during each calendar year, thereby complying with Section 6624(b) of the New York Insurance Law. At December 31, 2003, the board of directors was comprised of the following twelve members:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Cynthia Lou Banach Altmar, NY	Treasurer, OCMIC; Insurance Agency Owner, Banach Insurance Agency
Albert Harold Brown Belleville, NY	President, OCMIC; Retired insurance agent
Lillian Naomi Cronk Central Square, NY	Insurance Agency Owner Cronk Agency Inc.
Fred Hildreth Gardner Union Springs, NY	Income Tax Preparer
Emerson Francis Hamlin Phoenix, NY	Insurance Agent

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Frederick Joseph Hill Camden, NY	Insurance Agency Owner, Hill Insurance Agency
Charles Jewell Hinman Pulaski, NY	Secretary and CEO, OCMIC; Director, Central Cooperative Insurance Company
Jerald Wade Hollister Mexico, NY	Insurance Agency Owner, Hollister Agency Inc.
Douglas Gordon MacIlvennie Mannsville, NY	Retired Insurance Agent and Owner, MacIlvennie & Brown Inc
John Edmund Seymour Marietta, NY	Director, Central Cooperative Insurance Company
Richard Bruce Stevens Adams, NY	Owner, Ace Hardware and Old Greene Lumber
Patricia Casselman Worden Adams Center, NY	Vice-President, OCMIC

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 director's qualifications, as set forth in Article VI of the Company's charter and Article II Section 1 of its by-laws, was reviewed and it appears that each director was duly qualified.

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

<u>Name</u>	<u>Title</u>
Albert Harold Brown	President
Charles Jewell Hinman	Secretary and CEO
Cynthia Lou Banach	Treasurer
Patricia Casselman Worden	Vice President

B. Territory and Plan of Operation

As of December 31, 2003, the Company was licensed as an assessment cooperative property/casualty insurance company to transact business within all the Counties of the State of New York, excluding the Counties of Bronx, Kings, New York, Queens and Richmond.

As of the examination date, the Company was authorized to transact the kinds of insurance as defined in the following numbered paragraphs of Section 1113(a) of the New York Insurance Law:

<u>Paragraph</u>	<u>Kind of Business</u>
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	Workers' compensation and employers' liability (excluding worker's compensation)
19	Motor vehicle and aircraft physical damage (excluding aircraft physical damage)
20	Marine and inland marine (inland marine only)

The Company was also licensed as of December 31, 2003, to accept and cede reinsurance as provided in Section 6606 of the Insurance Law of the State of New York.

On March 9, 2004, the Department issued to the Company a new certificate of authority that added paragraph 9 of Section 1113(a), Boiler and Machinery.

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

DIRECT PREMIUMS WRITTEN (000s)

<u>Calendar Year</u>	<u>Premiums Written</u>
1999	\$3,751
2000	3,914
2001	3,959
2002	3,976
2003	4,274

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 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 underwrites predominantly homeowners multiple peril, commercial multiple peril, fire and other liability lines of business, which accounted for 31%, 30%, 14% and 12%, respectively, of the 2003 direct premium writings.

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

C. Reinsurance

Assumed

The Company does not assume any reinsurance business.

Ceded

The Schedule F data as contained in the Company's filed 2003 annual statement was found to inaccurately reflect its reinsurance transactions in that the Company did not report all of its reinsurers in accordance with the annual statement instructions. In addition, the Company did not correctly complete the notes to financial statements section of its filed annual statement with regard to its unsecured reinsurance recoverables.



The examiner reviewed all ceded reinsurance contracts in effect at December 31, 2003. The contracts 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 ceded reinsurance program in effect at December 31, 2003:

<u>Type of treaty</u>	<u>Cession</u>
<u>Excess of Loss</u>	
Property (2 layers) 100% authorized	\$500,000 in excess of \$100,000 per risk, limits \$300,000 on first layer and \$700,000 on second layer per occurrence.
Casualty (3 layers) 100% authorized	\$915,000 in excess of \$85,000 combined net loss per occurrence.
Combined or Basket (Property and Casualty combined in one occurrence) 100% authorized	\$150,000 in excess of \$100,000 net loss on any one or more of the property classes of business and one or more of the casualty classes of business per occurrence.
Casualty Clash Excess of Loss 100% authorized	\$2,000,000 in excess of \$1,000,000 per occurrence.
<u>Property Catastrophe Excess of Loss (2 layers)</u>	
60% authorized	95% of \$1,025,000 or \$973,750 in excess of \$225,000 ultimate net loss per occurrence (involving 3 or more risks) subject to limit of \$1,947,500 being 95% of \$2,050,000 for all loss occurrences commencing during contract year.
20% accredited	
20% unauthorized	100% in excess of \$1,250,000 ultimate net loss per occurrence.
<u>Aggregate Excess of Loss</u>	
60% authorized	95% of \$1,500,000 aggregate net losses for any contract year in excess of 71% of net premiums earned during the contract year.
20% accredited	
20% unauthorized	
<u>Property Facultative</u>	
100% authorized	Maximum cession: Lesser of 50% of entire risk or \$375,000. Risks where total insured value exceeds

\$1,500,000 underwritten on an offer and acceptance basis.

The Company's retention has increased from \$55,000 to \$100,000 on Property and from \$40,000 to \$85,000 on Casualty compared with the prior examination period.

#### Unauthorized Reinsurance

A review of OCMIC's Property and Casualty Combination Excess of Loss Reinsurance contract that became effective July 1, 2003 showed that one participating reinsurer on the Catastrophe Excess of Loss and the Aggregate Excess of Loss sections, Farm Mutual Reinsurance Plan, was unauthorized. Section 6606(a)(2) of the New York Insurance Law states that "Unless otherwise permitted by the superintendent, an assessment corporation may assume reinsurance only from other authorized assessment corporations but may cede reinsurance to any other licensed insurer if such insurer is authorized to reinsure such kind or kinds of insurance in this state or to an accredited reinsurer, as defined in subsection (a) of section one hundred seven of this chapter." The Company's transaction with an unauthorized reinsurer violates Section 6606(a)(2) of the New York Insurance Law. OCMIC's current reinsurance contract, effective July 1, 2004, did not have any unauthorized reinsurers participating. Nevertheless, it is recommended that the Company continue to comply with Section 6606(a)(2) by ceding to authorized or accredited reinsurers only, unless otherwise permitted by the superintendent. Currently it appears that as of December 31, 2003, no amounts were recoverable from the unauthorized reinsurer.

#### D. Holding Company System

As of December 31, 2003, the Company was 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.

During the period covered by this examination, the Company filed reports with the State Comptroller that generally complied with the requirements of the New York 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 in 2003 to Surplus as regards policyholders	.74 to 1
Premiums in course of collection to Surplus as regards policyholders	1%
Liabilities to liquid assets (cash and invested assets less investments in affiliates)	48%

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 incurred	\$8,546,598	50.18%
Loss adjustment expenses incurred	2,016,425	11.84%
Other underwriting expenses incurred	7,054,092	41.41%
Net underwriting loss	<u>(583,925)</u>	<u>(3.43)%</u>
Premiums earned	<u>\$17,033,190</u>	<u>100.00%</u>

G. Accounts and Records

i. Annual Statement Part 3 Expenses

This Department's Regulation No. 30 (11NYCRR105-109) sets forth the rules and methods governing the allocation of expenses among the major expense groups (loss adjustment, other underwriting and investment). This regulation also requires insurers to maintain detailed worksheets on file, supporting percentages used in allocating expenses to the various expense groups. SSAP No. 70 has similar requirements as Department Regulation 30.

Management could not provide detailed worksheets to support the allocation of each expense category to a particular expense group. Thus, there was no viable way to determine whether the Company correctly allocated expenses, as per the rules found in the regulation.

Management is directed to establish and maintain written documentation supporting the allocation of each expense category to the major expense groups as required by this Department's Regulation No. 30 and by SSAP No. 70.

During the review of the Company's expense allocations to the various expense categories it was found that the Company was not allocating some expenses in accordance with this Department's Regulation 30.

Thus, it is recommended that the Company allocate its expenses to each expense category in accordance with Department Regulation 30.

ii. Signatory Requirements on Company Checks

During an inquiry of the Company management, it was found that the Company only requires one signatory on its checks. OCMIC has an officer who signs the order to pay and another officer signing the check; however, the officer signing the check does not see the order to pay and neither of them sees the supporting documentation for the payment. Both officers appear to be acting independently. Section 6611(a)(4)(C) of the New York Insurance Law states that “All checks issued shall be signed either by two officers or by one officer upon the written order of another officer, except as otherwise provided by resolution of the corporation’s board of directors or in its by-laws for handling of miscellaneous expenses”. As indicated above the Company was not fully complying with the requirements of Section 6611(a)(4)(C).

Thus, it is recommended that the Company comply with Section 6611(a)(4)(C) of the New York Insurance Law by having the order to pay presented to the officer signing the check and both the officer signing the check and the officer signing the order to pay be provided with the supporting documentation for the payment so that the accuracy and legitimacy of said disbursement can be verified.

### iii. Regulation 118 and Section 307(b)

It was noted that the Company’s contracts for 2001 through 2003 with its CPA were not in compliance with the requirements of Regulation 118 and Section 307(b) of the New York Insurance Law. In correspondence dated December 7, 2004, the Company indicated that it was taking corrective action regarding this matter. Nevertheless, it is recommended that the Company ensure that the contract with its CPA firm complies with the provisions of Department Regulation 118 and Section 307(b) of the New York Insurance Law.

### iv. Section 1411(a) New York Insurance Law

Section 1411(a) of the New York Insurance Law states, in part, that “No domestic insurer shall make any loan or investment ... unless authorized or approved by its board of directors or a committee thereof responsible for supervising or making such investment or loan. The committee’s minutes shall be recorded and a report submitted to the board of directors at its next meeting.”

During the review of the Company’s investments to determine if they were properly approved, it was determined that the Company was not having its board approve all of its investments. Thus, the Company was not complying with the requirements of Section 1411(a).

Therefore, 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. It is noted that a similar recommendation was included in the previous report on examination.

v. Compliance with annual statement instructions

During the review of the Company’s filed annual statement instances were found of the Company not following the annual statement instructions. See Section 2(C) “Reinsurance” for additional information.

In addition to the above, the following instance was found of the 2003 annual statement not being completed in accordance with the annual statement instructions: the Company reported advance premiums under the annual statement captioned account, “Amounts withheld or retained by company for account of others”. Per the annual statement instructions, the advance premiums should be reported on page 3 line 10 of the annual statement.

Thus, it is recommended that the Company complete all financial statements filed with this Department in accordance with such statements instructions, henceforth.

3. FINANCIAL STATEMENTSA. Balance Sheet

The following shows the assets, liabilities and surplus as regards policyholders as determined by this examination as of December 31, 2003. This statement is the same as the balance sheet filed by the Company. The figures included in these financial statements have been rounded.

<u>Assets</u>	<u>Assets</u>	Non Admitted <u>Assets</u>	Net Admitted <u>Assets</u>
Bonds	\$7,687,081	\$0	\$7,687,081
Common stocks	25,048	0	25,048
Real estate occupied by company	79,048	0	79,048
Cash and short-term investments	<u>921,368</u>	<u>0</u>	<u>921,368</u>
Subtotals, cash and invested assets	<u>\$8,712,545</u>	<u>\$0</u>	<u>\$8,712,545</u>
Investment income due and accrued	86,642	0	86,642
Uncollected premiums and agents' balances in the course of collection	42,744	0	42,744
Deferred premiums, agents' balances and installments booked but deferred and not yet due	671,572	12,012	659,560
Net deferred tax asset	210,277	0	210,277
Furniture and equipment, including health care delivery assets (\$0)	<u>119,430</u>	<u>119,430</u>	<u>0</u>
Total assets	<u>\$9,843,210</u>	<u>\$131,442</u>	<u>\$9,711,768</u>

Liabilities, surplus and other funds

Losses	\$1,887,346
Loss adjustment expenses	313,682
Commissions payable, contingent commissions and other similar charges	213,894
Other expenses (excluding taxes, licenses and fees)	49,927
Taxes, licenses and fees (excluding federal and foreign income taxes)	4,736
Current federal and foreign income taxes (including \$25,931 on realized capital gains (losses))	31,383
Unearned premiums	2,276,744
Amounts withheld or retained by company for account of others	<u>58,347</u>
Total liabilities	<u>\$4,836,059</u>
Required Surplus	\$ 100,000
Unassigned funds (surplus)	<u>4,775,709</u>
Surplus as regards policyholders	<u>\$4,875,709</u>
Total liabilities, surplus and other funds	<u>\$9,711,768</u>

Note: The Internal Revenue Service has not performed an audit of the Company's federal income tax returns for any tax year during the examination period. 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 \$1,552,010 during the five-year examination period

January 1, 1999 through December 31, 2003, detailed as follows:

Underwriting Income

Premiums earned		\$17,033,190
Deductions:		
Losses incurred	\$8,546,598	
Loss adjustment expenses incurred	2,016,425	
Other underwriting expenses incurred	<u>7,054,092</u>	
Total underwriting deductions		<u>17,617,115</u>
Net underwriting gain or (loss)		(\$583,925)

Investment Income

Net investment income earned	\$1,816,091	
Net realized capital gain	<u>151,081</u>	
Net investment gain or (loss)		<u>\$1,967,172</u>

Other Income

Net gain or (loss) from agents' or premium balances charged off	\$12,816	
Finance and service charges not included in premiums	233,311	
Aggregate write-ins for miscellaneous income	<u>(72,073)</u>	
Total other income		<u>\$174,054</u>
Net income after dividends to policyholders but before federal and foreign income taxes		\$1,557,301
Federal and foreign income taxes incurred		<u>448,336</u>
Net Income		<u>\$1,108,965</u>

Capital and Surplus Account

Surplus as regards policyholders per report on Examination as of December 31, 1998			\$3,323,699
	<u>Gains in Surplus</u>	<u>Losses in Surplus</u>	
Net income	\$1,108,965	\$0	
Net unrealized capital gains or (losses)		16,749	
Change in net deferred income tax	210,277		
Change in nonadmitted assets		44,555	
Cumulative effect of changes in accounting Principles	182,000		
Aggregate write-ins for gains and losses in surplus	<u>112,072</u>	<u>0</u>	
Total gains and losses	<u>\$1,613,314</u>	<u>\$61,304</u>	
Net increase (decrease) in surplus			<u>\$1,552,010</u>
Surplus as regards policyholders per report on examination as of December 31, 2003			<u>\$4,875,709</u>

#### 4. LOSSES

The examination liability for the captioned item of \$1,887,346 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 Company's internal records and in its filed annual statements. Such analysis indicated that the Company's loss reserves appear adequate as of December 31, 2003.

#### 5. LOSS ADJUSTMENT EXPENSES

The examination liability for the captioned item of \$313,682 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 Company's internal records and in its filed annual statements. Such analysis indicated that the Company's loss adjustment expense reserves appear adequate as of December 31, 2003.

#### 6. 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

Circular Letter No. 11 (1978)

It was noted that the Company's complaint log is missing four of the required columnar headings for a complaint log per Circular Letter No. 11 (1978). In addition, the Company has not been preparing and forwarding quarterly reports from the complaint log to the heads of the respective operating units and to the company president. It is therefore recommended that the Company comply with Circular Letter No. 11 (1978) by adding the missing required columnar headings in its complaint log and also by preparing and forwarding the quarterly reports from the complaint log to the heads of the respective operating units and to the company president.

Section 3425 and 3426 of the New York Insurance Law

During the review of non-renewed policies, it was found that one of the reasons given for policy non-renewal "Agent no longer represents the Company" was not a true statement in some cases. The Company had acknowledged in its memo to the examiners dated March 28, 2005 that two of its agencies were not formally terminated when it sent non-renewal notices to its policyholders stating that such agent had been terminated. Sections 3425(d)(1) and 3426(e)(2) of the New York Insurance Law indicate that the specific reason for non-renewal be given on the notice. Such reason has to be a true statement; thus, it would appear that the non-renewal notices issued by the Company containing an untrue reason would be in violation of Sections 3425(d)(1) and 3426(e)(2). In the previously noted correspondence, the Company agreed to comply with Sections 3425 and 3426. Nevertheless, it is recommended that the Company

comply with Sections 3425 (d)(1) and 3426(e)(2) of the New York Insurance Law regarding including the specific reason for the non-renewal of the policy on the notice and that the Company ensure that all such reasons be true statements in the future.

Policy Forms - Section 6609(b) of the New York Insurance Law

During the review of policy forms, it was found that the Company had not filed all of its policy forms with the Superintendent for approval in accordance with Section 6609(b) of the New York Insurance Law. Thus, it is recommended that the Company comply with Section 6609(b) of the New York Insurance Law by filing all of its policy forms with the Superintendent for approval.

7. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

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

<u>ITEM</u>	<u>PAGE NO.</u>
<p>A     <u>Reinsurance</u></p> <p>It was recommended that the Company change its net retention plus the annual corridor deductible to comply with the limits stated in Section 6610 of the New York Insurance Law.</p>	<p>6</p>

The Company has complied with this recommendation.

<u>ITEM</u>	<u>PAGE NO.</u>
<p><b>B</b>      <u>Purchase and Sale of brokerage</u></p> <p>i. It was recommended that the Company comply with Section 2116 of the New York Insurance Law and not pay any commission to an unlicensed broker.</p> <p>The Company has complied with this recommendation.</p> <p>ii. It was directed by the Department that the officers pay back the commissions received to the Company in the following amounts: Secretary \$2,915.17; Treasurer \$3,567.69.</p> <p>The Company has complied with this recommendation.</p>	<p>9</p> <p>9</p>
<p><b>C</b>      <u>Real Estate</u></p> <p>The Company was directed by the Department to dispose of the property that did not comply with Section 1407 of the New York Insurance Law.</p> <p>The Company has complied with this recommendation.</p>	<p>10</p>
<p><b>D</b>      <u>Section 1411(a) of the New York Insurance Law</u></p> <p>It was recommended that the Company comply with 1411(a) of the New York Insurance Law by having the board of directors approve all investments.</p> <p>The Company has not complied with this recommendation. A similar recommendation is made in this report (Section 2(G)(iv)).</p>	<p>10</p>

ITEMPAGE NO.E Convention Expenses

i. It was recommended that the Company record all personal expenses paid on behalf of the officers' and directors' by the Company as income to each appropriate officer and director. 10

The Company has complied with this recommendation.

ii. The Department directed that the officers and/or directors reimburse the Company for all personal expenses and duplicate expense paid by the Company on their behalf. 10

The Company has complied with this recommendation.

F Accounts and Records

i. It was recommended that the Company prepare Schedule P-Part 5 in accordance with the annual statement instructions and accurately fill out Schedule P-Part 5 in all future financial statements submitted to this Department. 11

The Company has complied with this recommendation.

ii. It was recommended that the Company comply with Regulation 30 (NYCRR Part 105) by using the proper classification of expenses and with the annual statement instructions by reconciling Schedule A column 14 with lines 19 and 20 of Part 4-Expenses. 11

The Company did not fully comply with this recommendation. A similar recommendation regarding Regulation 30 is made in this report. See section 2(G)(i).

ITEMPAGE NO.G Custodial Agreements

It was recommended that the Company comply with Department guidelines as regards incorporating the nine provisions in their custodial agreements, henceforth.

11

The Company has complied with this recommendation.

H Market Conduct Activities

It was recommended that the Company comply with the provisions of the New York Standard Mortgage Clause, henceforth, when canceling policies, with mortgagees, at the request of the insured.

16

The Company has complied with this recommendation.



8. SUMMARY OF COMMENTS AND RECOMMENDATIONS

<u>ITEM</u>	<u>PAGE NO.</u>
A. <u>Reinsurance</u>	
It is recommended that the Company continue to comply with Section 6606(a)(2) by ceding to authorized or accredited reinsurers only, unless otherwise permitted by the superintendent.	8
B. <u>Accounts and Records</u>	
i. It is recommended that Management establish and maintain written documentation supporting the allocation of each expense category to the major expense groups as required by this Department's Regulation No. 30 and by SSAP No. 70.	10
ii. It is recommended that the Company allocate its expenses to each expense category in accordance with Department Regulation 30.	10
iii. It is recommended that the Company comply with Section 6611(a)(4)(C) of the New York Insurance law by having the order to pay presented to the officer signing the check and both the officer signing the check and the officer signing the order to pay be provided with the supporting documentation for the payment so that the accuracy and legitimacy of said disbursement can be verified.	11

- iv. It is recommended that the Company ensure that the contract with its CPA firm complies with the provisions of Department Regulation 118 and Section 307(b) of the New York Insurance Law. 11
- v. 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. It is noted that a similar recommendation was included in the previous report on examination. 12
- vi. It is recommended that the Company complete all financial statements filed with this Department in accordance with such statements instructions, henceforth. 12

C. Market Conduct Activities

- i. It is recommended that the Company comply with Circular Letter No. 11 (1978) by adding the missing required columnar headings in its complaint log and also preparing and forwarding the quarterly reports from the complaint log to the heads of the respective operating units and to the company president. 18
- ii. It is recommended that the Company comply with Sections 3425 (d)(1) and 3426(e)(2) of the New York Insurance Law regarding 18

including the specific reason for the non-renewal of the policy on the notice and that the Company ensure that all such reasons be true statements in the future.

- iii. It is recommended that the Company comply with Section 6609(b) of the New York Insurance Law by filing all of its policy forms with the Superintendent for approval. 19

Respectfully submitted,

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Maria Grace Comsti, CFE  
Senior Insurance Examiner

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

Maria Grace Comsti, being duly sworn, deposes and says that the foregoing report, subscribed by her, is true to the best of her knowledge and belief.

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Maria Grace Comsti

Subscribed and sworn to before me

this \_\_\_\_\_ day of \_\_\_\_\_, 2005.

Respectfully submitted.

*MS*

\_\_\_\_\_  
Maria Grace Comsti, CFE  
Senior Insurance Examiner

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

Maria Grace Comsti, being duly sworn, deposes and says that the foregoing report, subscribed by her, is true to the best of her knowledge and belief.

*MS*

\_\_\_\_\_  
Maria Grace Comsti

Subscribed and sworn to before me

this 17<sup>th</sup> day of May, 2005.

*MS*

JOSE T. GUESON  
TARY PUBLIC, State of New York  
No. 01GU4951406  
Qualified in Queens County  
Commission Expires May 22, 2007

*Appointment No 22244*

**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:*

**Grace Comsti**

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

**Oswego County Mutual Insurance Company**

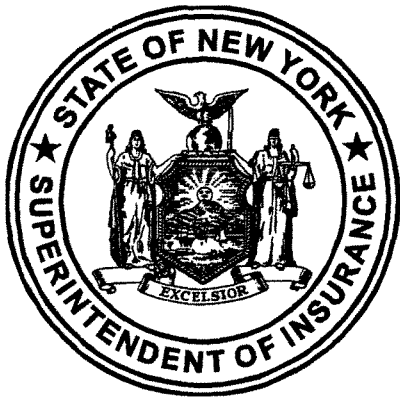
*and to make a report to me in writing of the condition of the said*

**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 23rd day of \*July, 2004*



A handwritten signature in black ink, appearing to read "G. V. Serio", written over a horizontal line.

**GREGORY V. SERIO**  
*Superintendent of Insurance*