

REPORT ON EXAMINATION  
OF THE  
WASHINGTON COUNTY CO-OPERATIVE INSURANCE COMPANY  
AS OF  
DECEMBER 31, 2002

DATE OF REPORT:

SEPTEMBER 30, 2003

EXAMINER:

NYANTAKYI AKUOKO



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

George E. Pataki  
Governor

Gregory V. Serio  
Superintendent

Honorable Gregory V. Serio  
Superintendent of Insurance  
Albany, New York 12257

Pursuant to the requirements of the New York Insurance Law, and in compliance with the instructions contained in Appointment Number 22072 dated June 23, 2003, attached hereto, I have made an examination into the condition and affairs of the Washington County Co-operative Insurance Company as of December 31, 2002 and submit the following report thereon.

The examination was conducted at the Company's home office located at 33-35 Main Street, Greenwich, New York 12834.

Wherever the designations "the Company", or "WCCIC" appear herein without qualification, they should be understood to indicate the Washington County Co-operative Insurance Company.

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## 1. SCOPE OF EXAMINATION

The previous examination was conducted as of December 31, 1997. This examination covered the five-year period from January 1, 1998 through December 31, 2002. The examination was limited in scope to a review or audit of those balances 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 provision for reinsurance. The examination included a review of income, disbursements, and company records deemed necessary to accomplish such analysis or verification.

A review was made to ascertain what action was taken by the Company with regard to comments and recommendations contained in the prior report on examination.

## 2. DESCRIPTION OF COMPANY

The Company was organized on March 30, 1858 as the Easton Mutual Insurance Company for the purpose of transacting business as an assessment co-operative fire insurance company in the Town of Easton, Washington County, New York.

Under an agreement of merger dated January 23, 1961, the corporate title of the Company was changed to the Washington County Co-operative Fire Insurance Company. On May 7, 1986, this Department approved an amendment to the certificate of incorporation to change the corporate title of the Company to the Washington County Co-operative Insurance Company. Between 1961 and 2003, the Company merged with insurance companies through merger agreements approved by this Department. The latest merger, between the Company and Cambridge Co-operative Fire Insurance Company, became effective on April 1, 2002.

On December 15, 1986, this Department approved an amendment to the certificate of incorporation to extend the Company's writing powers to include the kinds of insurance specified in subsection (a) and (b) of Section 6605 of New York Insurance Law.

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 eleven nor more than twenty members. As of the examination date, the board of directors was comprised of sixteen members. During the period under review, the board met, at least, four times in each calendar year to comply with Section 6624(b) of the New York Insurance Law.

The Directors as of December 31, 2002 were as follows:

<u>Director's Name and Residence</u>	<u>Principal Business Affiliation</u>
Eric Allen Schaghticoke, NY	Equipment dealer
Howard Andrew Eagle Bridge, NY	Farmer
Richard Ayers Argyle, NY	Fence contractor & Veal dealer
Donald D. Hanks Salem, NY	Farmer
R. Earl Horton Cambridge, NY	Farmer
Louis Marchaland Greenwich, NY	Retired Farmer
James McClay Greenwich, NY	Secretary of WCCIC & Retired Teacher
William McMorris, Sr. Cambridge, NY	Retired Farmer
Brian Mercure Granville, NY	Farmer

<u>Director's Name and Residence</u>	<u>Principal Business Affiliation</u>
Carleton Philpott Hoosick, NY	Farmer
Neal Rea Cambridge, NY	Farmer
James Reeve Greenwich, NY	President of WCCIC & Truck Driver
Donald Skellie Greenwich, NY	Treasurer of WCCIC & Retired Farmer
Clifford Stewart Greenwich, NY	Vice President of WCCIC & Farmer
Robert VanAnden Hartford, NY	Retired auto repairman
Bruce Whitney Fort Ann, NY	Farmer/Real Estate agent

The minutes of all meetings of the Board of Directors held during the examination period were reviewed. The average attendance by the board of directors was approximately 78%, with each individual director's attendance being adequate at these meetings. Each director's qualification, as set forth in Article II Section 1 of the Company's by-laws, was reviewed and it appears that each director was duly qualified.

The following is a list of the Company's officers, as of December 31, 2002:

President	James Reeve
Executive Vice President	Dale MacNeil
Vice President	Clifford Stewart
Treasurer	Donald Skellie
Secretary	James McClay

#### B. Territory and Plan of Operation

As of December 31, 2002, the Company was authorized to write insurance within the Albany, Clinton, Columbia, Essex, Franklin, Fulton, Greene, Hamilton, Herkimer, Montgomery, Rensselaer, St. Lawrence, Saratoga, Schenectady, Schoharie, Warren and Washington Counties

of the State of New York. The following schedule represents the direct premiums written by year:

<u>Calendar Year</u>	<u>Direct Premiums Written (000)</u>
1998	\$1,172
1999	1,195
2000	1,193
2001	1,279
2002	1,478

As of December 31, 2002, the Company was authorized to transact the kinds of insurance 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
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
19	Motor vehicle and aircraft physical damage
20	Marine and inland marine(inland marine only)

Based upon the lines of business for which the company is licensed, and pursuant to the requirements of Article 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 and farm owners insurance, mainly through direct writing and independent agents and brokers.

### C. Reinsurance

The Company had no assumed reinsurance premiums written as of December 31, 2002.

The Schedule F as contained in the Company's annual statement filed for the years within the examination period was found to reflect its reinsurance transactions. The examiner reviewed the ceded reinsurance contract on file during the examination period. The contract, as endorsed during the examination, contained the required standard clauses, including insolvency clause, meeting the requirements of Section 1308 of the New York Insurance Law.

As of December 31, 2002, the Company had the following reinsurance program in place:

A. Property and Casualty Combination Excess of Loss

Property(2 layers)	\$360,000 x/s \$40,000 each risk each occurrence, not exceeding \$180,000 any one occurrence on the first layer.
Casualty (2 layers)	\$460,000 x/s \$40,000
Casualty Clash	\$500,000 x/s \$500,000 each risk each occurrence
Property Catastrophe (2 layers)	95% of \$900,000 x/s \$100,000 100% x/s \$1,000,000

B. Property Facultative Reinsurance Agreement

Maximum cession	\$400,000, risks with total insured value exceeding \$800,000 underwritten on an offer and accept basis.
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Subsequent to the examination period, as of January 1, 2003, the Company increased its net retention on the property and casualty combination excess of loss reinsurance program from \$40,000 to \$50,000.

D. Holding Company System

The Company was not a member of any holding company system, as of December 31, 2002.

E. Significant Operating Ratios

The following ratios have been computed, as of December 31, 2002, based upon the results of this examination:

Net premiums written in 2002 to surplus as regards policyholders	.26 to 1
Liabilities to liquid assets	27%
Premiums in course of collection(net of ceded balance payable) to surplus as regards policyholders	3.9%

The above ratios fall within the acceptable 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 from January 1, 1998 to December 31, 2002:

	<u>Amounts</u>	<u>Ratios</u>
Losses and loss adjustment expenses incurred	\$2,868,504	68.02%
Other underwriting expenses incurred	1,285,782	30.49%
Net underwriting gain(loss)	<u>62,628</u>	<u>1.49%</u>
Premiums earned	<u>\$4,216,914</u>	<u>100%</u>

#### F. Abandoned Property

A review was made of the information included in the Company's reports of abandoned property to the Office of the Comptroller of the State of New York, during the period under examination. It was noted that the Company made the required filings for all the years under examination, pursuant to Section 1316 of the New York Abandoned Property Law.

#### G. Accounts and Records

##### i. Custodial Agreements

As indicated in the National Association of Insurance Commissioners("NAIC") Financial Condition Examiners Handbook, there are specific guidelines that should be followed in the maintenance of a custodial or safekeeping agreement. After a review of the Company's current custodial agreement, it was noted that several provisions and safeguards required by the NAIC

and reinforced by the Department's Circular Letter No. 2 of 1997 were not found in the agreement. Therefore, it is recommended that the Company comply with NAIC requirements, reinforced by Circular Letter No. 2 of 1997, by obtaining a custodial agreement that includes the requirements specified by the NAIC and the New York Insurance Department.

ii. Amortization of discounted and premium bonds

The Statement of Statutory Accounting Principles ('SSAP') No. 26 paragraph 6 states in part, 'Amortization of bond premiums and discount shall be calculated using scientific interest method.' A review of the Schedule D Part 1 of the Company's annual statement indicated that the Company used straight-line interest method instead of the scientific method. Therefore, it is recommended that the Company comply with SSAP No 26 paragraph 6 by using the scientific interest method to calculate the amortization of such bonds.

iii. Agents' balances or uncollected premiums

The annual statement instruction emphasizes that agents' balances or uncollected premiums reported on line 10.1 of the asset page should include receivables that are due. Agent balances and installments booked but deferred and not yet due, according to the instructions, are to be reported on line 10.2 of the asset page. A review of the Company's premium receivable account indicated that the amounts reported on line 10.1 and 10.2 of the asset page were based on a arbitrary ratio of 1 to 9 respectively of the total receivable amount. Therefore, it is recommended that the Company comply with the annual statement instructions by recording premium receivables as indicated in the annual statement instructions.

iv. Agents' balances and uncollected premiums over 90-days due

SSAP No. 6 paragraph 9 states in part, ' any uncollected premiums which are 90 days due shall be nonadmitted.' The Company did not reduce its premium receivable amount by the

over 90 days amount. Therefore, it is recommended that the Company comply with SSAP No. 6 paragraph 9 by not admitting uncollected premiums and installment premiums that are over 90 days due. The over 90 day amount was not a material amount, therefore, no examination change will be made to the Company's financial statements.

v. Repurchase Agreement

Both the annual statement instructions and SSAP No. 45 require that a reporting entity that has entered into a repurchase agreement shall make certain disclosures regarding the agreement in the financial statements. Also, such funds, according SSAP No. 45 'shall be reported as short-term investments on all financial statements.' A review of the annual statement general interrogatories showed that the Company did not comply with the annual statement instruction and SSAP No. 45. Therefore, it is recommended that the Company comply with SSAP No. 45 and the annual statement instruction by disclosing the necessary repurchase agreement information as required by the annual statement instruction and to report such funds as short term investments. No change will be made since a change would not impact on the surplus.

### 3. FINANCIAL STATEMENTS

#### A. Balance sheet

The following shows the Company's assets, liabilities and surplus as regards policyholders as determined by this examination as of December 31, 2002 and as reported by the Company.

<u>Assets</u>	<u>Ledger</u> <u>Assets</u>	<u>Not-Admitted</u> <u>Assets</u>	<u>Net Admitted</u> <u>Assets</u>
Bonds	\$3,989,715	\$-0-	\$3,989,715
Stocks	4,798	-0-	4,798
Real estate	21,761	-0-	21,761
Cash on hand and on deposit	513,300	-0-	513,300
Agents' Balances or uncollected premium	142,255	-0-	142,255
Interest, dividends, and real estate income due and accrued	69,706	-0-	69,706
Fed and foreign income tax recoverable	<u>154,978</u>	<u>-0-</u>	<u>154,978</u>
Total assets	<u>\$4,896,513</u>	<u>\$-0-</u>	<u>\$4,896,513</u>
 <u>Liabilities and Surplus</u>			
Losses and loss adjustment expenses			\$447,823
Commissions payable, contingent commissions and and other similar charges			22,324
Other expenses due and accrued			23,685
Unearned Premium			729,000
Advance Premium			19,364
Ceded premium payable			(8,229)
Aggregate write-ins for liabilities			<u>23,981</u>
Total liabilities			1,257,948
Required Surplus		\$ 100,000	
Unassigned Funds		<u>3,538,565</u>	
Surplus as regards policyholders			<u>3,638,565</u>
Total			<u>\$4,896,513</u>

The Internal Revenue Service did not audit the Company's federal income tax returns during the period under examination. The examiner is unaware of any potential exposure of the Company to any further tax assessment and no liability has been established herein relative to such contingency.

#### B. Underwriting and Investment Exhibit

Surplus as regards policyholders increased \$1,008,128 during the five-year examination period, January 1, 1998 through December 31, 2002. The following is a condensed statement of the underwriting and investment results:

#### Statement of Income

##### Underwriting Income

Premiums earned		\$4,216,914
Losses and loss adjustment expenses incurred	\$2,868,504	
Other underwriting expenses incurred	<u>1,285,782</u>	
Total underwriting deductions		<u>4,154,286</u>
Net underwriting gain(loss)		\$ 62,628

##### Investment Income

Net investment income earned	\$ 919,334	
Net realized capital gain	<u>3,937</u>	
Net investment gain(loss)		923,271

##### Other Income

Finance and service charges	37,568	
Total other income		<u>37,568</u>
Net income before dividends to policyholders and federal; and foreign income taxes		1,023,467
Less: Dividends to Policyholders		<u>233,856</u>
Net income before federal and foreign income taxes		789,611
Federal and foreign income taxes incurred		<u>123,498</u>
Net income(loss)		<u>\$ 666,113</u>

Capital and Surplus Account

Surplus as regards policyholders, December 31, 1997, per prior			\$2,630,437
	<u>Gains in</u>	<u>Losses in</u>	
	<u>Surplus</u>	<u>Surplus</u>	
Net income or loss	\$666,113		
Net unrealized capital gains or (losses)	1,353		
Change in non-admitted assets		25,980	
Cumulative effect of changes in accounting			
Principles	118,978		
Aggregate write-ins for gains and losses			
Surplus	247,664		
Total gains and losses	<u>\$1,034,108</u>	<u>\$25,980</u>	
Net increase in surplus			<u>\$1,008,128</u>
Surplus as regards policyholders per report on examination, as of December 31, 2002			<u>\$3,638,565</u>

4. LOSSES AND LOSS ADJUSTMENT EXPENSES

The examination liability of \$447,823 is the same as the amount reported by the Company on its filed 2002 annual statement.

The Department's 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.

The Company's actuarial opinion and report were reviewed and utilized in the determination of an appropriate reserve for the Company's unpaid losses and loss adjustment expenses.

## 5. MARKET CONDUCT ACTIVITIES

During 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. This examination's general review was directed at practices of the Company in the following areas:

- A. Sales and advertising
- B. Underwriting
- C. Rating
- D. Claims
- E. Cancellations
- F. Complaint procedures

The review indicated the following findings and recommendations:

### i. Complaint log

Circular Letter No. 11 of 1978 requires insurance companies to maintain an ongoing central log to register and monitor complaint activity. It also defines the format in which the complaint log should be kept. A review of the Company's current log indicated that the log was not in full compliance of the letter. Therefore, it is recommended that the Company comply with Circular Letter No. 11 of 1978 to register and monitor complaint activities.

### ii. Cancellation/denial of application

Section 3425(b) of New York Insurance Law requires that during the first sixty days that a covered policy is in effect, any notice of cancellation should be accompanied by a statement giving the specific reason or reasons for such cancellation. A review of the Company's denied application files indicated that no specific underwriting reason was given for the cancellations or denials. Therefore, it is recommended that the Company comply with Section 3425(b) of the

New York Insurance Law by stating on the notice of cancellation or denial to applicants the specific reason or reasons for such cancellation or denial.

iii. Regulation 64

Section 216.11 of this Department's Regulation No. 64(11 NYCRR 216) requires insurance companies to 'maintain within each claim file all communications, transactions, notes and workpapers' so that 'all events relating to a claim can be reconstructed by the Insurance Department examiners'. A review of the claim files indicated that the Company was not maintaining claim files in full compliance of the regulation. Therefore, it is recommended that the Company comply with Section 216.11 of Regulation No. 64 by maintaining its claim files in such a manner as to enable the Department examiner to reconstruct events relating to claims.

6. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

The prior report contained one recommendation as follows(page numbers refer to the prior report):

<u>Item</u>	<u>Page No.</u>
A. It was recommended that the Company segregate and report all uncollected premiums in the course of collection and installment premiums billed, but not yet due on appropriate lines as required by the annual statement instructions.	9
The Company has complied with this recommendation.	
B. It was recommended that the Company report the other liability line of business in a manner that would more accurately disclose the Company's loss and premium data.	13
The Company has complied with this recommendation.	

## 7. SUMMARY OF COMMENTS AND RECOMMENDATIONS

The following is a summary of the comments and recommendations made in the body of this report:

<u>Item</u>	<u>Page No.</u>
<p><u>i. Custodial Agreement</u></p> <p>It is recommended that the Company comply with NAIC requirements, reinforced by Circular Letter No. 2 of 1997 by obtaining a custodial agreement that includes the requirements specified by the NAIC and the New York Insurance Department.</p>	8
<p><u>ii. Amortization of premium and discounted bonds</u></p> <p>It is recommended that the Company comply with SSAP No. 26 paragraph 6 by using scientific interest method to calculate amortization of discounted or premium bonds.</p>	8
<p><u>iii. Agents balances and uncollected premiums</u></p> <p>It is recommended that the Company comply with the annual statement instructions by reporting the premium receivable as indicated in the annual statement instructions.</p>	8
<p><u>iv. Agents balances and uncollected premiums over 90 days due</u></p> <p>It is recommended that the Company comply with SSAP No. 6 paragraph 9 by non-admitting uncollected premium balances and installment premiums that are over ninety days due.</p>	9

<u>Item</u>	<u>Page No.</u>
v. <u>Repurchase agreement</u>	9
<p>It is recommended that the Company comply with the annual statement instructions and SSAP No. 45 by disclosing in the annual statement funds subject to repurchase agreement and by reporting such funds as short-term investments.</p>	
vi. <u>Complaint log</u>	13
<p>It is recommended that the Company comply with Circular Letter No. 11 of 1978 by maintaining an appropriate ongoing central log to register and monitor complaint activities.</p>	
vii. <u>Notice of cancellation or denial of application</u>	13
<p>It is recommended that the Company comply with Section 3425(b) of NYIL by stating on the notice of cancellation or denial to applicants the specific reason or reasons for such cancellation or denial.</p>	
viii. <u>Regulation 64</u>	14
<p>It is recommended that the Company comply with NYCRR 216.11(Regulation 64) by maintaining its claim files in such manner as to enable the Department examiners to reconstruct events relating to claims.</p>	

Respectfully submitted,



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.



Nyantakyi Akuoko

Subscribed and sworn to before me

this 30<sup>th</sup> day of July 2003

  
ANDREA M. CLARE  
Notary Public, State of New York  
Qualified in Montgomery County  
No. 4636585  
Commission Expires July 31, ~~19~~ 2006

*Appointment No 22072*

*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:*

**Nyantaki Akuoko**

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

**Washington County Co-operative Insurance Company**

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

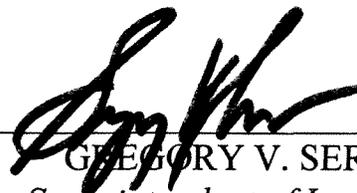
**Company**

*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 June, 2003*



  
\_\_\_\_\_  
GREGORY V. SERIO  
Superintendent of Insurance