

REPORT ON EXAMINATION

OF

SECURITY MUTUAL INSURANCE COMPANY

AS OF

DECEMBER 31, 2020

DATE OF REPORT

MARCH 1, 2022

EXAMINER

LEE PROWELL

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## Department of Financial Services

**KATHY HOCHUL**  
Governor

**ADRIENNE A. HARRIS**  
Superintendent

March 1, 2022

Honorable Adrienne A. Harris  
Superintendent  
New York State Department of Financial Services  
Albany, New York 12257

Madam:

Pursuant to the requirements of the New York Insurance Law, and in compliance with the instructions contained in Appointment Number 32190 dated January 27, 2021, attached hereto, I have made an examination into the condition and affairs of Security Mutual Insurance Company as of December 31, 2020, and submit the following report thereon.

Wherever the designation “the Company” appears herein without qualification, it should be understood to indicate Security Mutual Insurance Company.

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

Due to the COVID-19 pandemic, the examination was conducted remotely.

## 1. SCOPE OF EXAMINATION

The Department has performed an examination of the Company, a single-state insurer. The previous examination was conducted as of December 31, 2015. This examination covered the five-year period from January 1, 2016 through December 31, 2020. 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 current and 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 New York laws, statutory accounting principles, and annual statement instructions.

This examination report includes, but is not limited to, the following:

- Company history
- Management and control
- Territory and plan of operation
- Reinsurance
- Affiliated group description
- Financial statement presentation
- Loss review and analysis
- Significant subsequent events
- Summary of recommendations

A review was also made to ascertain what action was taken by the Company with regard to the recommendation 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

Security Mutual Insurance Company was organized under the laws of the State of New York on March 21, 1887 as Tompkins County Co-operative Fire Insurance Company for the purpose of transacting business as a co-operative fire insurance corporation in Tompkins County, New York. Subsequently, the territorial limits of the Company were extended to include all counties of this State, and wherever authorized by law, all U.S. states and the District of Columbia.

In 1935, the Company changed its name to the Tompkins Co-operative Fire Insurance Company.

In 1957, the Company was absorbed by the merger of the West Seneca Mutual Fire Insurance Association.

On February 7, 1964, the Company was absorbed by the merger of the Security Mutual Fire Insurance Company of Delhi, New York, and, concurrently, changed its name to Security Mutual Fire Insurance Company. On December 31, 1964, the Company was absorbed by the merger of the Canton Co-operative Fire Insurance Company, Canton, New York.

Effective February 18, 1975, the Company adopted its current title.

In 2014, the Company entered into an affiliation agreement with Pittstown Cooperative Fire Insurance Company (“Pittstown”), an assessment cooperative insurance company domiciled in New York.

### A. Corporate Governance

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 thirteen members. The board meets four times during each calendar year. At December 31, 2020, the board of directors was comprised of the following thirteen members:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
W. David Banfield Ithaca, New York	Retired
Delbert L. Hall Dryden, New York	Retired

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
John H. Hanrahan, 3 <sup>rd</sup> Ithaca, New York	Attorney
Louis J. Hillegas Paoli, Pennsylvania	Retired
Joan H. Holden Lansing, New York	Retired
Stephen M. James Binghamton, New York	Retired
Lisa Kanellis Lansing, New York	Secretary, Security Mutual Insurance Company
William H. Maddren Cortland, New York	Retired
Catherine Mawicke Aurora, New York	Retired
Thomas R. Ruane Lansing, New York	Retired
Roy E. Staley Ithaca, New York	Retired
Wilfred W. Wege Ballston Lake, New York	Retired
Ronald Wilder Cortland, New York	Treasurer, Security Mutual Insurance Company

As of December 31, 2020, the principal officers of the Company were as follows:

<u>Name</u>	<u>Title</u>
Delbert L. Hall*	President
Lisa M. Kanellis*	Secretary
Ronald S. Wilder*	Treasurer
Stephen M. James	Vice President

Subsequent to the examination date, Delbert Hall resigned, and Ronald Wilder vacated his position as treasurer and was appointed as the Company's president. Lisa Kanellis continued as secretary and was also appointed as treasurer.

B. Territory and Plan of Operation

As of December 31, 2020, 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:

<u>Paragraph</u>	<u>Line of Business</u>
4	Fire
5	Miscellaneous property
6	Water damage
7	Burglary and theft
8	Glass
9	Boiler and machinery
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 Only)

The Company may also accept and cede reinsurance, as provided in its charter, and pursuant to Section 6606(a)(1) of the New York Insurance Law.

Section 6606(a)(1) of the New York Insurance Law states, in part:

“ . . . any co-operative property/casualty insurance company shall have the power, whether or not expressed in its charter, to accept reinsurance of the kind or kinds of insurance it is licensed to do directly, and to cede reinsurance . . . ”

Based upon the lines of business for which the Company is licensed and pursuant to the requirements of Articles 13, 41, and 66 of the New York Insurance Law, the Company is required to maintain a minimum surplus to policyholders in the amount of \$950,000.

In 1926, the Company joined with 16 other companies in New York to form a combination policy known as New York Cooperative Underwriters, now known as New York Mutual Underwriters (“NYMU”).

The purpose was to write larger policies than any individual company could write in one policy with each partner assuming an equal share of premiums and expenses. During the earlier portion of the examination period, NYMU was a combination policy of the Company and Sterling Insurance Company (“Sterling”), with the purpose of writing risks that the member companies do not write, as an accommodation to agents in good standing. Effective December 31, 2018, Sterling formally withdrew from NYMU. The Company then determined, with the approval of the Department, that NYMU would become a branch office of the Company.

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

<u>Calendar Year</u>	<u>Direct Premiums</u>	<u>Assumed Premiums</u>	<u>Total Gross Premiums</u>
2016	\$42,132,530	\$314,992	\$42,447,522
2017	\$42,530,303	\$332,725	\$42,863,028
2018	\$43,267,912	\$329,612	\$43,597,524
2019	\$43,895,820	\$325,145	\$44,220,965
2020	\$44,299,199	\$324,895	\$44,624,094

The Company primarily writes personal lines, excluding automobile, and some commercial lines. Homeowners’ multi-peril and commercial multi-peril accounted for 71.2% and 21.7%, respectively, of the Company’s 2020 direct premiums written. At December 31, 2020, the Company wrote business through approximately 373 independent agents.

The Company’s assumed business is mainly attributable to its participation in the Regional Reciprocal Catastrophe Pool, which is managed by Mutual Re (formerly known as the Mutual Reinsurance Bureau). In addition, effective January 1, 2016, the Company assumes business from Pittstown pursuant to a 100% quota share agreement. This agreement was submitted to and non-disapproved by the Department. In 2020, assumed business from Pittstown totaled \$7,664.

#### C. Reinsurance Ceded

The Company has structured its ceded reinsurance program as follows:

<u>Type of Treaty</u>	<u>Cession</u>
<u>Property</u>	
Multiple Lines Excess of Loss (2 layers)	\$1,425,000 in excess of \$350,000 ultimate net loss, each loss each risk. Limited to \$2,325,000 each loss occurrence.
<u>Casualty</u>	
Multiple Lines Excess of Loss (2 layers)	\$2,150,000 in excess of \$350,000 ultimate net loss, each loss occurrence. Limited to \$7,500,000 all loss occurrences.
<u>Combined Property and Casualty</u>	
Multiple Lines Excess of Loss	\$350,000 in excess of \$350,000 ultimate net loss, each loss occurrence. Recoveries under Property and Casualty, above, shall reduce the ultimate net loss subject to this section.
<u>Property Facultative Pro Rata</u>	Maximum of \$1,225,000 in excess of \$1,775,000.
<u>Property Catastrophe</u>	
Excess of Loss (3 layers)	\$48,000,000 in excess of \$2,000,000, ultimate net loss, each loss occurrence. Company retains \$5,000,000 in excess of \$50,000,000.
<u>Excess of Loss Regional</u>	
Reciprocal Catastrophe pool (1 layer)	\$10,000,000 in excess of \$55,000,000.
<u>Umbrella Facultative</u> (2 layers)	
1 <sup>st</sup> layer	95% of up to \$1,000,000 ultimate net loss each loss occurrence, each policy.
2 <sup>nd</sup> layer	\$4,000,000 excess of \$1,000,000 ultimate net loss each loss occurrence, each policy. Annual aggregate limit of \$10,000,000 to the reinsurer.

The Company has reinstatement protection coverage in place for the first layer of the Company's property catastrophe excess of loss reinsurance contract.

In 2020, premium ceded was approximately \$5.6 million, distributed between authorized insurers and unauthorized insurers of approximately \$5 million and \$0.6 million, respectively. Reinsurance recoverables were approximately \$11 million, distributed between authorized insurers and unauthorized insurers of approximately \$10.7 million and \$0.1 million, respectively. Cession to authorized and

unauthorized insurers appears consistent with the prior examination. Reinsurance recoverable from any one insurer did not exceed 25% of the surplus.

It is the Company's policy to obtain the appropriate collateral for its cessions to unauthorized reinsurers. Letters of credit obtained by the Company to take credit for cessions to unauthorized reinsurers were reviewed for compliance with Department Regulations 133. No exceptions were noted.

All significant ceded reinsurance agreements in effect as of the examination date were reviewed and found to contain the required clauses, including an insolvency clause meeting the requirements of Section 1308 of the New York Insurance Law.

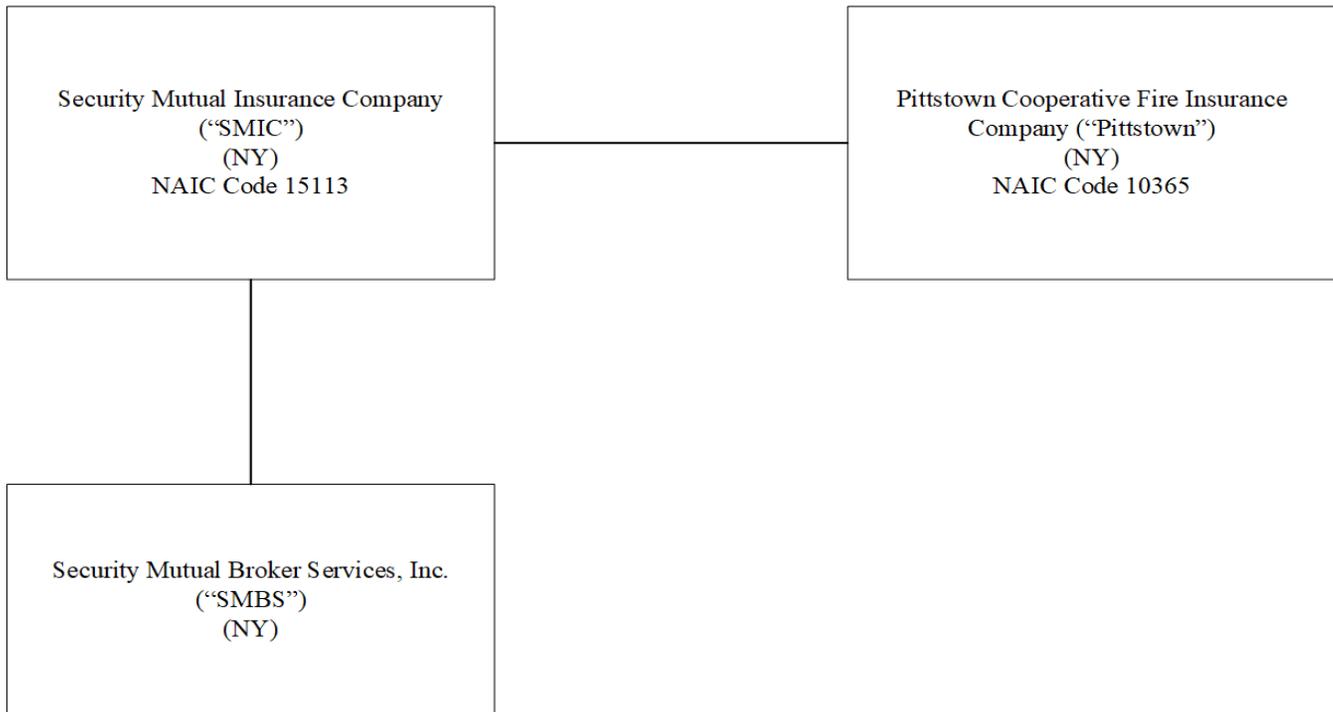
Examination review found that the Schedule F data reported by the Company in its filed annual statement accurately reflected its reinsurance transactions. Additionally, management has represented that all material ceded reinsurance agreements transfer both underwriting and timing risk as set forth in the NAIC Accounting Practices and Procedures Manual, Statement of Statutory Accounting Principles ("SSAP") No. 62R. 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 SSAP No. 62R.

D. Affiliated Group

In 1998, the Company organized a subsidiary, Security Mutual Brokers Services, Inc. ("SMBS") pursuant to Section 1603 of the New York Insurance Law and Part 81-1 of Department Regulation No. 53. SMBS was incorporated to act as a general insurance agency to accept applications for property and casualty insurance of all kinds.

As noted previously, since 2014, the Company has been affiliated with Pittstown.

The following is an unabridged chart of the affiliated group at December 31, 2020:



Effective August 3, 2021, Pittstown’s name changed to Security Cooperative Insurance Company.

### Affiliated Group Agreements

At December 31, 2020, the Company was party to the following agreements with other members of its affiliated group:

#### Affiliation Agreement

Effective April 1, 2014, the Company entered into an affiliation agreement with Pittstown, an assessment cooperative insurance company domiciled in New York. As part of the agreement, the Company has control of Pittstown through a majority of members on the board of directors of Pittstown. The agreement was submitted to and non-disapproved by the Department. As part of the affiliation agreement, the Company and Pittstown entered into the following agreements:

i. Expense Sharing Agreement

Pursuant to the terms of the agreement, the Company and Pittstown share certain expenses to reduce the overall operating expenses of each company. Costs and expenses shall be allocated in accordance with Department Regulation 30.

ii. Surplus Note Agreement

Effective April 1, 2014, the Company holds a \$1 million surplus note issued by Pittstown. Pursuant to the terms of the agreement, the interest rate on the surplus note is equal to the prime rate as published in the Wall Street Journal on the first day of each calendar quarter and computed on and as of the last day of each calendar quarter; Pittstown shall repay this surplus note on July 1, 2033.

E. Significant Ratios

The Company's operating ratios, computed as of December 31, 2020, fall within the benchmark ranges set forth in the Insurance Regulatory Information System of the NAIC.

<u>Operating Ratios</u>	<u>Result</u>
Net premiums written to policyholders' surplus	52%
Adjusted liabilities to liquid assets	41%
Two-year overall operating	84%

Underwriting Ratios

The underwriting ratios presented below are on an earned/incurred basis and encompass the five-year period covered by this examination:

	<u>Amount</u>	<u>Ratio</u>
Losses and loss adjustment expenses incurred	\$ 92,378,726	49.84%
Other underwriting expenses incurred	75,119,576	40.53%
Net underwriting gain	<u>17,860,144</u>	<u>9.63%</u>
Premiums earned	<u>\$185,358,446</u>	<u>100.00%</u>

The Company's reported risk-based capital ("RBC") score was 1,502.20% at December 31, 2020. The RBC score is a measure of the minimum amount of capital appropriate for a reporting entity to support its overall business operations in consideration of its size and risk profile. An RBC score of 200% or below can result in regulatory action. There were no financial adjustments in this report that impacted the Company's RBC score.

F. Accounts and Records

In March 2004, the Company issued a \$5 million surplus note. As of December 31, 2020, the carrying value of the surplus note was \$2 million. During the review of the principal and interest payments made during the examination period, it was noted that the Company made a \$500,000 principal payment on the surplus note without the prior approval of the Department.

Section 1307 of the New York Insurance Law states, in part:

"(a) Any domestic stock, mutual or co-operative insurance company or reciprocal insurer may, without pledging any of its assets, receive advances or borrow funds to:

- (1) conduct its business,
- (2) enable it to comply with any surplus requirement or make good any impairment or deficiency or other requirement of this chapter,
- (3) defray the reasonable expenses of its organization,
- (4) provide any fund to be voluntarily contributed to surplus . . .

(b) Such borrowing may only be made upon an agreement that such moneys and such interest . . . shall be repaid only out of free and divisible surplus of such insurer with the approval of the superintendent whenever, in his judgment, the financial condition of such insurer warrants . . ."

It is recommended that the Company comply with Section 1307 of the New York Insurance Law and make principal and interest payments on surplus notes only with the prior approval of the Department. It is noted that the carrying value of the surplus note totaled \$2 million as of December 31, 2021.

### 3. FINANCIAL STATEMENTS

#### A. Balance Sheet

The following shows the assets, liabilities and surplus as regards policyholders as of December 31, 2020, as reported by the Company:

<u>Assets</u>	<u>Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>
Bonds	\$ 90,043,003	\$ 0	\$ 90,043,003
Common stocks	16,622,647	0	16,622,647
Properties occupied by the company	244,178	0	244,178
Cash, cash equivalents and short-term investments	12,663,561	0	12,663,561
Other invested assets	1,000,000	1,000,000	0
Investment income due and accrued	630,847	\$0	630,847
Uncollected premiums and agents' balances in the course of collection	287,923	20,303	267,620
Deferred premiums, agents' balances and installments booked but deferred and not yet due	2,702,885	0	2,702,885
Amounts recoverable from reinsurers	101,676	0	101,676
Current federal and foreign income tax recoverable and interest thereon	8,911	0	8,911
Electronic data processing equipment and software	1,415,327	1,274,204	141,123
Furniture and equipment, including health care delivery assets	136,387	136,387	0
Receivables from parent, subsidiaries and affiliates	7,355	0	7,355
Company owned life insurance	3,175,640	0	3,175,640
Equity and deposits in pools and associations	<u>604,333</u>	<u>55,479</u>	<u>548,854</u>
Total assets	<u>\$129,644,673</u>	<u>\$2,486,373</u>	<u>\$127,158,300</u>

Liabilities, Surplus and Other FundsLiabilities

Losses and loss adjustment expenses	\$23,771,634
Commissions payable, contingent commissions and other similar charges	1,091,554
Other expenses (excluding taxes, licenses and fees)	575,255
Taxes, licenses and fees (excluding federal and foreign income taxes)	46,360
Net deferred tax liability	672,056
Unearned premiums	22,940,952
Advance premium	644,814
Ceded reinsurance premiums payable (net of ceding commissions)	401,185
Amounts withheld or retained by company for account of others	1,362,037
Provision for reinsurance	9,000
Drafts outstanding	2,085
Post retirement benefits	<u>155,036</u>
Total liabilities	\$51,671,968

Surplus and Other Funds

Special contingent fund	\$ 950,000
Surplus notes	2,000,000
Unassigned funds (surplus)	<u>72,536,332</u>
Surplus as regards policyholders	<u>75,486,332</u>
Total liabilities, surplus, and other funds	<u>\$127,158,300</u>

Note: The Internal Revenue Service has not audited tax returns covering tax years 2016 through 2020. The examiner is unaware of any potential exposure of the Company to any tax assessment and no liability has been established herein relative to such contingency.

B. Statement of Income

The net income for the examination period as reported by the Company was \$26,296,058, as detailed below:

Underwriting Income

Premiums earned		\$185,358,446
Deductions:		
Losses and loss adjustment expenses incurred	\$92,378,726	
Other underwriting expenses incurred	<u>75,119,576</u>	
Total underwriting deductions		<u>167,498,302</u>
Net underwriting gain or (loss)		\$ 17,860,144

Investment Income

Net investment income earned	\$10,114,160	
Net realized capital gain	<u>3,341,415</u>	
Net investment gain or (loss)		13,455,575

Other Income

Finance and service charges not included in premiums	\$ 1,803,907	
Sale of equipment	(17,265)	
Corporate -owned life insurance	<u>262,023</u>	
Total other income or (loss)		<u>2,048,665</u>
Net income before federal and foreign income taxes		\$ 33,364,384
Federal and foreign income taxes incurred		<u>7,068,326</u>
Net income		\$ <u>26,296,058</u>

C. Capital and Surplus

Surplus as regards policyholders increased \$24,656,650 during the five-year examination period January 1, 2016 through December 31, 2020, as reported by the Company, detailed as follows:

Surplus as regards policyholders as reported by the Company as of December 31, 2015			\$50,829,682
	<u>Gains in Surplus</u>	<u>Losses in Surplus</u>	
Net income	\$26,296,058		
Net unrealized capital gains or (losses)	2,167,482		
Change in net deferred income tax	320,599		
Change in nonadmitted assets		\$ 988,460	
Change in provision for reinsurance	16,008		
Change in surplus notes		3,000,000	
Change in post-retirement benefits	<u>0</u>	<u>155,037</u>	
Total gains and losses	\$28,800,147	\$4,143,497	
Net increase in surplus			<u>24,656,650</u>
Surplus as regards policyholders as reported by the Company as of December 31, 2020			<u>\$75,486,332</u>

No adjustments were made to surplus as a result of this examination

#### **4. LOSSES AND LOSS ADJUSTMENT EXPENSES**

The examination liability for the captioned items of \$23,771,634 is the same as reported by the Company as of December 31, 2020. The examination analysis of the loss and loss adjustment expense reserves was conducted in accordance with generally accepted actuarial standards of practice and statutory accounting principles, including SSAP No. 55.

Based on the filed annual statement as of December 31, 2020, reserves are mainly distributed between homeowners' multiple peril (68%) and commercial multiple peril (27%).

#### **5. SUBSEQUENT EVENTS**

On March 11, 2020, the World Health Organization declared an outbreak of a novel coronavirus ("COVID-19") pandemic. The COVID-19 pandemic has continued to develop throughout 2020 and 2021, with significant uncertainty remaining regarding the full effect of COVID-19 on the U.S. and global insurance and reinsurance industry. At the time of releasing this report, the examination's review noted that there has not been a significant impact to the Company. The Department has been in communication with the Company regarding the impact of COVID-19. The Department continues to closely monitor the impact of the pandemic on the Company and will take necessary action if a solvency concern arises.

## 6. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

The prior report on examination contained one recommendation as follows:

<u>ITEM</u>		<u>PAGE NO.</u>
A.	<u>Market Conduct</u>	13
	It was recommended that the Company report all fire losses in excess of \$1,000 to the PILR within five business days following receipt of notice of loss, pursuant to the provisions of Section 318(a) of the New York Insurance Law and Parts 62-2.0 and 62-2.2 of Department Regulation 96.	
	The Company has complied with this recommendation.	

## 7. SUMMARY OF COMMENTS AND RECOMMENDATIONS

<u>ITEM</u>		<u>PAGE NO.</u>
A.	<u>Accounts and Records</u>	11
	It is recommended that the Company comply with Section 1307 of the New York Insurance Law and make principal and interest payments on surplus notes only with the prior approval of the Department.	

Respectfully submitted,

\_\_\_\_\_/S/\_\_\_\_\_  
Lee Prowell  
Senior Insurance Examiner

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

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

\_\_\_\_\_/S/\_\_\_\_\_  
Lee Prowell

Subscribed and sworn to before me  
this \_\_\_\_\_ day of \_\_\_\_\_, 2022.

*APPOINTMENT NO. 32190*

*NEW YORK STATE*

***DEPARTMENT OF FINANCIAL SERVICES***

*I, Linda A. Lacewell, Superintendent of Financial Services of the State of New York, pursuant to the provisions of the Financial Services Law and the Insurance Law, do hereby appoint:*

***Lee Prowell***

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

***Security Mutual Insurance Company***

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

***COMPANY***

*with such other information as he shall deem requisite.*

*In Witness Whereof, I have hereunto subscribed by name  
and affixed the official Seal of the Department  
at the City of New York*

*this 27th day of January, 2021*

***LINDA A. LACEWELL***  
*Superintendent of Financial Services*

*By:*

*Joan Riddell*

\_\_\_\_\_  
*Joan Riddell*  
*Deputy Bureau Chief*

