



**REPORT ON EXAMINATION
OF
ALLEGANY CO-OP INSURANCE COMPANY
AS OF DECEMBER 31, 2021**

**EXAMINER:
DATE OF REPORT:**

**LAMIN JAMMEH
DECEMBER 13, 2022**

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KATHY HOCHUL
Governor



ADRIENNE A. HARRIS
Superintendent

December 13, 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 32341 dated January 24, 2022, attached hereto, I have made an examination into the condition and affairs of Allegany Co-op Insurance Company as of December 31, 2021, and submit the following report thereon.

Wherever the designation “the Company” appears herein without qualification, it should be understood to indicate Allegany Co-op Insurance Company.

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

1. SCOPE OF EXAMINATION

The Department has performed an examination of Allegany Co-op Insurance Company, a single-state insurer. The previous examination was conducted as of December 31, 2016. This examination covered the five-year period from January 1, 2017, through December 31, 2021. Transactions occurring subsequent to this period were reviewed where deemed appropriate by the examiner.

New York was the lead state of the Allegany Co-op & Conemaugh Valley Group. The examination was performed concurrently with the examination of Conemaugh Valley Mutual Insurance Company, a Pennsylvania-domiciled insurance company. Pennsylvania participated in this examination.

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
- Summary of recommendations

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

Allegany Co-op Insurance Company was incorporated under the laws of the State of New York on April 3, 1887 as the Allegany County Farmers' Co-operative Fire Insurance Company for the purpose of transacting business as an assessment co-operative fire insurance company. It became licensed on April 13, 1887 and commenced business on April 15, 1887. A certificate issued by this Department on July 19, 1971, permitted the Company to change its name to Allegany Co-op Insurance Company.

During 2007, the policyholders of Allegany Co-op Insurance Company approved the conversion of the Company to an advance premium co-operative and the subsequent merger of the Company with Monroe Co-op Insurance Company of Rochester, NY ("Monroe"). On October 1, 2007, the merger between the Company and Monroe was finalized with the Company as the surviving entity.

On December 11, 2007, the Company entered into an affiliation with Conemaugh Valley Mutual Insurance Company of Johnstown, Pennsylvania ("CVMIC"). CVMIC is an insurance company licensed in Pennsylvania that provides property and liability coverage in that state.

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 but not more than 15 members. The board meets at least four times during each calendar year. At December 31, 2021, the board of directors was comprised of the following ten members:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Kevin O. Harris Wellsville, NY	Independent Consultant
Joel C. Hopkins Harrisburg, PA	Senior Vice President and General Counsel, Capital BlueCross
Erland E. Kailbourne Mendon, NY	Chairman, Albany International Corp.
Brian H. Lehman Johnstown, PA	Retired Banking Industry
Byron K. Long Cuba, NY	President and Chief Executive Officer, Allegany Co-op Insurance Company

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Matthew F. Minor Brockport, NY	Senior Loan Officer, Farm Credit East
Deborah K. Pawlowski Buffalo, NY	Chief Executive Officer, Kei Advisors LLC.
Keith W. Saylor Johnstown, PA	Supervisor, Richland Township
Rodney R. Stettner Spencerport, NY	Commercial Farmer, Stettner Farms
Duane A. Vaclavik Fillmore, NY	Retired Banking Industry

As of December 31, 2021, the principal officers of the Company were as follows:

<u>Name</u>	<u>Title</u>
Byron K. Long	President and Chief Executive Officer
Keith W. Saylor	Secretary
Holly A. Thropp	Chief Financial Officer and Treasurer
Duane A. Vaclavik	Chairman

B. Territory and Plan of Operation

As of December 31, 2021, the Company was licensed to write business solely in New York.

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
10	Elevator
11	Animal
12	Collision
13	Personal injury liability
14	Property damage liability

<u>Paragraph</u>	<u>Line of Business</u>
19	Motor vehicle and aircraft physical damage
20	Marine and inland marine (inland only)

Based upon 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, 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.

The following schedule shows the direct written premiums and premiums assumed 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>
2017	\$14,088,701	\$5,712,007	\$19,800,708
2018	\$13,887,541	\$4,303,131	\$18,190,672
2019	\$13,870,234	\$4,463,821	\$18,334,055
2020	\$13,700,994	\$4,567,208	\$18,268,202
2021	\$14,182,748	\$4,776,233	\$18,958,981

The Company's predominant lines of business are commercial multiple peril, homeowners multiple peril, farmowners multiple peril, and fire which accounted for 43.9%, 35.3%, 10.9% and 9.2%, respectively, of the Company's 2021 direct written business. The Company offers its products to rural and urban markets throughout New York State except for the counties that make up New York City. Its products are sold exclusively through a group of approximately 320 independent agents and are concentrated in Erie, Suffolk, and Monroe counties.

Assumed business accounted for 25.2% of the Company's gross premium written at December 31, 2021. This consists mainly of coverage assumed from CVMIC (97.4%) with the remainder assumed from two mandatory pools, namely the FAIR plan and NAMICO.

C. Reinsurance Ceded

Intercompany Pooling Agreement

Effective January 1, 2017, the Company entered into a quota share reinsurance agreement with CVMIC whereby CVMIC shall cede 100% of its business to the Company, subject to a maximum cession of \$250,000, which shall include any amounts due for loss adjustment expense, extra contractual obligations and loss in excess of the policy limits. The Company's liability hereunder in respect to any one loss

occurrence shall not exceed an amount equal to 250% of the earned reinsurance premium. The agreement was subsequently endorsed and amended effective January 1, 2018, to change the maximum cession amount to \$300,000. Upon examination, the Company executed the endorsement on December 20, 2021, and submitted it to the Department.

Effective January 1, 2017, the Company entered into a quota share reinsurance agreement with CVMIC whereby the Company shall cede 20% of the combined business to CVMIC, subject to a maximum cession of \$50,000, which shall include any amounts due for loss adjustment expense, extra contractual obligations and loss in excess of the policy limits. CVMIC's liability hereunder in respect to any one loss occurrence shall not exceed an amount equal to 250% of the earned reinsurance premium. The agreement was subsequently endorsed and amended effective January 1, 2018, to change the maximum cession amount to \$60,000. Upon examination, the Company executed the endorsement on December 20, 2021, and submitted it to the Department.

It is recommended that the Company institute procedures to ensure the timely filing of reinsurance agreements and amendments in accordance with Department Circular Letter 10 (2010).

Similar quota share reinsurance agreements were in place since 2009. The reinsurance agreements were revised in 2017 to accommodate the merger of Hannahstown Mutual Insurance Company into CVMIC to change the percentage that the Company cedes in relation to the merger.

At December 31, 2021, the Company ceded \$3,516,085 in written premium to CVMIC and assumed \$4,652,763 from CVMIC. Because the companies are not authorized reinsurers, total liabilities resulting from the affiliation are collateralized by funds held by the respective companies.

Ceded Reinsurance Program

The Company has structured its ceded reinsurance program as follows:

<u>Type of Treaty</u>	<u>Cession</u>
<u>Property Casualty Combination Excess of Loss</u> (Two Layers)	<p><u>Property</u> \$3,700,000 excess of \$300,000 each loss, each risk; subject to the combined limits of liability to the reinsurer of \$2,000,000 and \$6,000,000 each loss occurrence on layers 1 and 2 respectively.</p> <p><u>Casualty</u> \$3,700,000 excess of \$300,000 each loss, each risk. With respect to workers' compensation insurance required by subsection (j) of Section 3420 of the New York State Insurance Law, no claim shall be made unless the Company shall have first sustained an ultimate net loss in excess of \$4,000,000.</p> <p><u>Casualty and property combined</u> \$300,000 excess \$300,000 each loss occurrence.</p>
<u>Property Catastrophe Excess of Loss</u> (Two Layers)	100% excess of \$1,000,000 each loss occurrence involving three or more risks.
<u>Property Facultative per Risk Excess of Loss</u>	\$2,000,000 excess of \$1,000,000 each loss, each risk
<u>Equipment Breakdown Quota Share</u>	100% of the Company's ultimate net retained liability. Cessions shall not exceed \$15,000,000 on any one risk.

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.

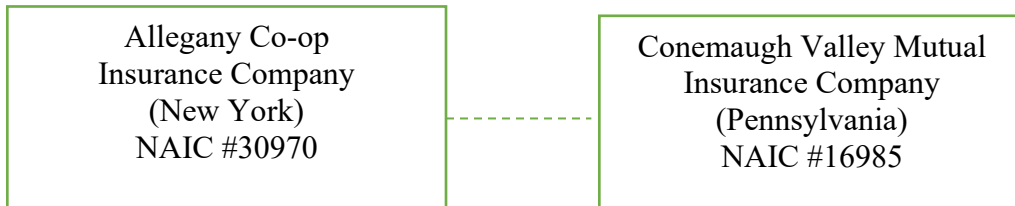
Examination review found that the Schedule F data reported by the Company in its filed annual statement accurately reflected its reinsurance transactions. Additionally, management has represented that all material ceded reinsurance agreements transfer both underwriting and timing risk as set forth in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

The Company is a member of the Allegany Co-op & Conemaugh Valley Group. Both companies in the group are controlled by a common board of directors but, because of their corporate charters, they report independently of each other and maintain separate legal identities. The companies are affiliated by means of common board members; a surplus note; quota share reinsurance agreements; and an expense sharing agreement that enables the companies to share resources.

A review of the holding company registration statements filed with this Department indicated that such filings were complete and were filed in a timely manner pursuant to Department Circular Letter 10 (2010).

The following is an unabridged chart of the affiliated group at December 31, 2021:



At December 31, 2021, the Company and CVMIC were parties to the following agreements:

Amended and Restated Affiliation Agreement

Effective December 11, 2007, the Company and CVMIC entered into certain arrangements that created an affiliation, with each company remaining separate and distinct corporate entities. Pursuant to the terms of the agreement, the Company is the controlling entity by holding a majority of the membership on CVMIC's board of directors. The arrangements which created the affiliation included the aforementioned quota share reinsurance agreements, and the expense sharing agreement and surplus note described further herein.

Expense Sharing Agreement

Effective December 11, 2007, the Company and CVMIC entered an expense sharing agreement. The agreement provides for the sharing of non-insurance related and specifically identified expenses including director fees, legal and audit fees, commissions, boards, bureaus, printing, stationery, and other out-of-pocket expenses for goods and services incurred for the benefit of either company and not related to insurance contracts or the administration of insurance business. The agreement was filed with this Department pursuant to Department Circular Letter 10 (2010).

Surplus Note

On December 11, 2007, the Company purchased a surplus note totaling \$1,000,000 issued by CVMIC. Interest on the note is not to exceed 10%. Repayment of the note and any interest due may only be paid out of free and divisible surplus of CVMIC with prior approval of the Pennsylvania Insurance Department. At the direction of the Department, the Company reports this surplus note as a non-admitted asset. As of December 31, 2021, the amount of the interest due totaled \$519,375.

E. Significant Ratios

The Company's operating ratios, computed as of December 31, 2021, 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	32%
Adjusted liabilities to liquid assets	33%
Two-year overall operating	85%

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	\$38,751,872	56.42%
Other underwriting expenses incurred	28,016,510	40.79%
Net underwriting gain (loss)	<u>1,914,755</u>	<u>2.79%</u>
Premiums earned	<u>\$68,683,137</u>	<u>100.00%</u>

The Company's reported risk-based capital ("RBC") score was 2,751.6% at December 31, 2021. 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

11 NYCRR 89.10 (commonly referenced as Department Regulation 118) states in the pertinent part:

"(a) Every company subject to this Part shall retain a CPA who agrees by written contract with such company to comply with the provisions of Insurance Law section 307(b) and this Part. The contract must specify: . . .

(4) that the CPA represents that it is in compliance with the requirements of section 89.5 of this Part."

Based on the review of the contract, it was noted that the contract did not contain the requisite language that specifies "the CPA represents that it is in compliance with the requirements of section 89.5 of this part".

It is recommended that the Company institute controls to ensure that its CPA contract complies with 11 NYCRR 89.10(a)(4).

Section 1409(a) of the New York Insurance Law states:

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

As of September 31, 2021, the Company reported admitted assets of \$63,675,133; therefore, the Section 1409(a) limitation in any one institution is \$6,367,513. As of December 31, 2021, the Company reported an investment in SPDR Trust Series 1, totaling \$7,294,911. This investment exceeded Section 1409(a) limitation in any one institution by \$927,398.

It is recommended that the Company institute procedures to ensure compliance with Section 1409(a) of the New York Insurance Law.

3. FINANCIAL STATEMENTS

A. Balance Sheet

The following shows the assets, liabilities and surplus as regards policyholders as of December 31, 2021, as reported by the Company:

<u>Assets</u>	<u>Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>
Bonds	\$43,120,471	\$ 0	\$43,120,471
Common stocks	10,838,266	0	10,838,266
Properties occupied by the company	670,248	0	670,248
Cash, cash equivalents and short-term Investments	2,246,642	0	2,246,642
Other invested assets	1,000,000	1,000,000	0
Investment income due and accrued	309,789	0	309,789
Uncollected premiums and agents' balances in the course of collection	746,400	0	746,400
Deferred premiums, agents' balances and installments booked but deferred and not yet due	1,328,736	967	1,327,769
Amounts recoverable from reinsurers	263,058	0	263,058
Funds held by or deposited with reinsured Companies	4,041,000	0	4,041,000
Current federal and foreign income tax recoverable and interest thereon	204,877	0	204,877
Electronic data processing equipment and Software	43,544	27,065	16,479
Furniture and equipment, including health care delivery assets	24,561	24,561	0
Receivables from parent, subsidiaries and affiliates	566,039	0	566,039
CSV - Directors and officers life insurance	505,028	0	505,028
Equity in pools-Fair Plan	41,424	24,562	16,862
Equity in pools-NAMICO	<u>155,338</u>	<u>0</u>	<u>155,338</u>
 Total assets	 <u>\$66,105,422</u>	 <u>\$1,077,155</u>	 <u>\$65,028,267</u>

Liabilities, Surplus and Other FundsLiabilities

Losses and Loss Adjustment Expenses	\$6,556,477
Reinsurance payable on paid losses and loss adjustment expenses	402,663
Commissions payable, contingent commissions and other similar charges	685,057
Other expenses (excluding taxes, licenses and fees)	767,555
Taxes, licenses and fees (excluding federal and foreign income taxes)	7,704
Net deferred tax liability	569
Unearned premiums	7,833,111
Advance premium	340,066
Ceded reinsurance premiums payable (net of ceding commissions)	308,565
Funds held by company under reinsurance treaties	<u>3,320,000</u>
Total liabilities	\$20,221,767

Surplus and Other Funds

Special contingent surplus	\$ 938,464
Unassigned funds (surplus)	<u>43,868,036</u>
Surplus as regards policyholders	<u>\$44,806,500</u>
Total liabilities, surplus and other funds	<u>\$65,028,267</u>

Note: The Internal Revenue Service has not audited tax returns covering tax years 2017 and through 2021. 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 \$10,894,681, as detailed below:

Underwriting Income

Premiums earned		\$68,683,137
Deductions:		
Losses and loss adjustment expenses incurred	\$38,751,872	
Other underwriting expenses incurred	<u>28,016,510</u>	
Total underwriting deductions		<u>66,768,382</u>
Net underwriting gain		\$ 1,914,755

Investment Income

Net investment income earned	\$ 5,845,155	
Net realized capital gain	<u>3,879,771</u>	
Net investment gain		\$ 9,724,926

Other Income

Net gain or (loss) from agents' or premium balances charged off	\$ 25,579	
Finance and service charges not included in premiums	1,020,296	
Aggregate write-ins for miscellaneous income	<u>(1,053)</u>	
Total other income		\$ <u>1,044,822</u>
Net income before dividends to policyholders and before federal and foreign income taxes		12,684,503
Dividends to policyholders		<u>0</u>
Net income after dividends to policyholders and before federal and foreign income taxes		12,684,503
Federal and foreign income taxes incurred		<u>1,789,822</u>
Net income		<u>\$10,894,681</u>

C. Capital and Surplus

Surplus as regards policyholders increased \$10,662,373 during the five-year examination period from January 1, 2017, through December 31, 2021, as reported by the Company, detailed as follows:

Surplus as regards policyholders as reported by the Company as of December 31, 2016			\$34,144,127
	<u>Gains in Surplus</u>	<u>Losses in Surplus</u>	
Net income	\$10,894,681		
Net unrealized capital gains		\$1,644,199	
Change in net deferred income tax	1,395,369		
Change in non-admitted assets	<u>16,522</u>	<u>0</u>	
Total gains and losses	\$12,306,572	\$1,644,199	
Net increase in surplus			<u>10,662,373</u>
Surplus as regards policyholders as reported by the Company as of December 31, 2021			<u>\$44,806,500</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 \$6,556,477 is the same as reported by the Company as of December 31, 2021. The examination analysis of the loss and loss adjustment expense reserves was conducted in accordance with actuarial standards of practice and statutory accounting principles, including SSAP No. 55.

5. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

The prior report on examination did not contain any comments or recommendations.

6. SUMMARY OF COMMENTS AND RECOMMENDATIONS

<u>ITEM</u>		<u>PAGE NO.</u>
A.	<u>Reinsurance Ceded</u> It is recommended that the Company institute procedures to ensure the timely filing of reinsurance agreements and amendments in accordance with Department Circular Letter 10 (2010).	6
B.	<u>Accounts and Records</u>	
	i. It is recommended that the Company institute controls to ensure that its CPA contract complies with 11 NYCRR 89.10(a)(4).	10
	ii. It is recommended that the Company institute procedures to ensure compliance with Section 1409(a) of the New York Insurance Law.	10

Respectfully submitted,

_____/S/_____
Lamin Jammeh
Financial Services Examiner 2

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

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

_____/S/_____
Lamin Jammeh

Subscribed and sworn to before me

this _____ day of _____, 2023.

APPOINTMENT NO. 32341

NEW YORK STATE

DEPARTMENT OF FINANCIAL SERVICES

I, Adrienne A. Harris, Acting 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:

Lamin Jammeh

as a proper person to examine the affairs of the

Allegany Co-op 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 24th day of January, 2022

ADRIENNE A. HARRIS
Acting Superintendent of Financial Services

By:

Joan Riddell

Joan Riddell
Deputy Bureau Chief

