REPORT ON EXAMINATION
OF
ERIE AND NIAGARA INSURANCE ASSOCIATION

AS OF DECEMBER 31, 2018

EXAMINER:	**SUSAN WEIJOLA**
DATE OF REPORT:	**JUNE 18, 2020**

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January 2, 2024

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 31964, dated September 8, 2019, attached hereto, I have made an examination into the condition and affairs of Erie and Niagara Insurance Association as of December 31, 2018, and submit the following report thereon.

Wherever the designation "the Company" appears herein without qualification, it should be understood to indicate Erie and Niagara Insurance Association.

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 Erie and Niagara Insurance Association, a single-state insurer. The previous examination was conducted as of December 31, 2013. This examination covered the five-year period from January 1, 2014 through December 31, 2018. 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

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.

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

2. DESCRIPTION OF COMPANY

The Company was organized on January 1, 1875, as Erie and Niagara Farmers' Insurance Association. On June 14, 1887, the Company was incorporated for the purpose of transacting business as an assessment co-operative fire insurance company in Erie and Niagara counties of New York State.

In 1958, the Company merged with Ashford Mutual Fire Insurance Company of Delevan, New York, with the Company being the surviving entity. The Company's name was changed to its current title by authorization of this Department on April 18, 1961.

In 1982, the Company became licensed to write business in all New York counties, except Bronx, Kings, New York, Queens, and Richmond.

On November 1, 1982, the Company merged with Amherst and Clarence Insurance Company, of Williamsville, New York. On January 1, 1983, the Company merged with Cattaraugus and Allegany County Patron's Fire Relief Association, of Randolph, New York. In both instances, Erie and Niagara Insurance Association was the surviving entity.

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 seven nor more than 15 members. The Board meets four times during each calendar year. At December 31, 2018, the board of directors was comprised of the following 13 members:

Name and Residence	Principal Business Affiliation
Leonard Joseph Almquist Orchard Park, New York	Certified Public Accountant, Self employed
Gordon Paul Assad East Aurora, New York	Retired
James Walter Fulmer LeRoy, New York	Chairman, Tompkins Insurance Agencies, Inc.
Robert Milton Hoover Orchard Park, New York	Vice President, Change Healthcare

Name and Residence	Principal Business Affiliation
Henry George Koziol, Jr. Elma, New York	Managing Director, Freed Maxick CPAs, P.C.
Jonathan Leslie Lamb Oakfield, New York	Treasurer, Lamb Farms, Inc.
Robert Harmon Lowe Geneseo, New York	Retired
Maureen Jill Marshall Elba, New York	Vice President, Torrey Farms, Inc.
John Alan Noble LeRoy, New York	Vice President, Noblehurst Farms, Inc.
Erik Mo O'Neill Williamsville, New York	Managing Director/Investment Officer, Wells Fargo Advisors LLC.
Norman John Orlowski, Jr. East Amherst, New York	Chief Executive Officer and President, Erie and Niagara Insurance Association Chief Executive Officer and President, Cherry Valley Cooperative Insurance Company
Linwood Dean Poelma East Amherst, New York	Retired
Mary Beth Powell Clarence, New York	President, P&R Casilio Enterprises, Inc.

As of December 31, 2018, the principal officers of the Company were as follows:

Name	Title
John Alan Noble	Chairman of the Board
Robert Milton Hoover	Vice Chairman of the Board
Norman John Orlowski, Jr.	Chief Executive Officer and President
Maureen Ann Mulcahy	Vice President, Corporate Relations and Secretary
Gina Marie Cartenuto	Vice President, Finance and Treasurer
David Joseph Cecere	Vice President, Insurance Operations
Robert Joseph Florio	Vice President, Marketing
Scott Michael Stock	Vice President, Information Technology

B. Territory and Plan of Operation

As of December 31, 2018, 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:

Paragraph	Line of Business
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 (excluding workers' compensation)
19	Motor vehicle and aircraft physical damage (excluding aircraft physical damage)
20	Marine and inland marine (inland only)

Paragraphs 5, 6, 7, 8, 9,13, 14 and 15 can be written solely in conjunction with fire insurance written under the same policy and covering the same premises. The Company is also authorized to accept and cede reinsurance as provided in Section 6606 of the New York Insurance Law.

Based upon the lines of business for which the Company is licensed 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 did not assume premiums during the examination period. The following schedule shows the direct premiums written by the Company for the period under examination:

Calendar Year	Total Gross Premiums
2014	$64,452,731
2015	$66,959,670
2016	$70,575,879
2017	$75,293,802
2018	$80,775,004

The Company's predominant lines of business are commercial multiple peril, homeowners multiple peril, farmowners multiple peril and fire, representing 45%, 26%, 14% and 14%, respectively, of the Company's 2018 direct written premiums. The business is produced through approximately 250 appointed agents who operate in close to 600 sales offices throughout New York.

C. Reinsurance Ceded

The Company has structured its ceded reinsurance program as follows:

Type of Treaty	Cession
Property Excess of Loss (Two layers)	$2,550,000 excess of $450,000 each loss, each risk. Subject to a limit of liability to the reinsurer of $5,000,000 per loss occurrence.
Catastrophe Excess of Loss	100% of Ultimate Net Loss in excess of $2,000,000 each loss occurrence. The reinsurer shall not be liable unless two or more risks are involved in the same loss occurrence.
Combined Property and Casualty Excess of Loss	In the event of a loss occurrence involving at least one casualty and one property policy subject to the contract, the reinsurer shall be liable in respect of each loss occurrence for the ultimate net loss over and above an initial ultimate net loss of $450,000 each loss occurrence subject to a limit of liability to the reinsurer of $4,000,000 each loss occurrence.
Equipment Breakdown and Utility Line Quota Share	100% any one risk
Casualty Excess of Loss (Two layers)	$3,550,000 excess $450,000 each loss occurrence.

Additionally, the Company is a party to a property per risk excess of loss agreement with its affiliate, Cherry Valley Cooperative Insurance Company ("CVCIC"). Pursuant to the terms of the agreement, CVCIC agrees to indemnify the Company, in excess of $425,000, the ultimate net loss paid by the Company as a result of property losses occurring under its policies. CVCIC's liability shall never exceed $25,000 each risk, each loss. This agreement was submitted to the Department in accordance with Circular Letter No. 10 (2010).

All ceded business was to authorized reinsurers. 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.

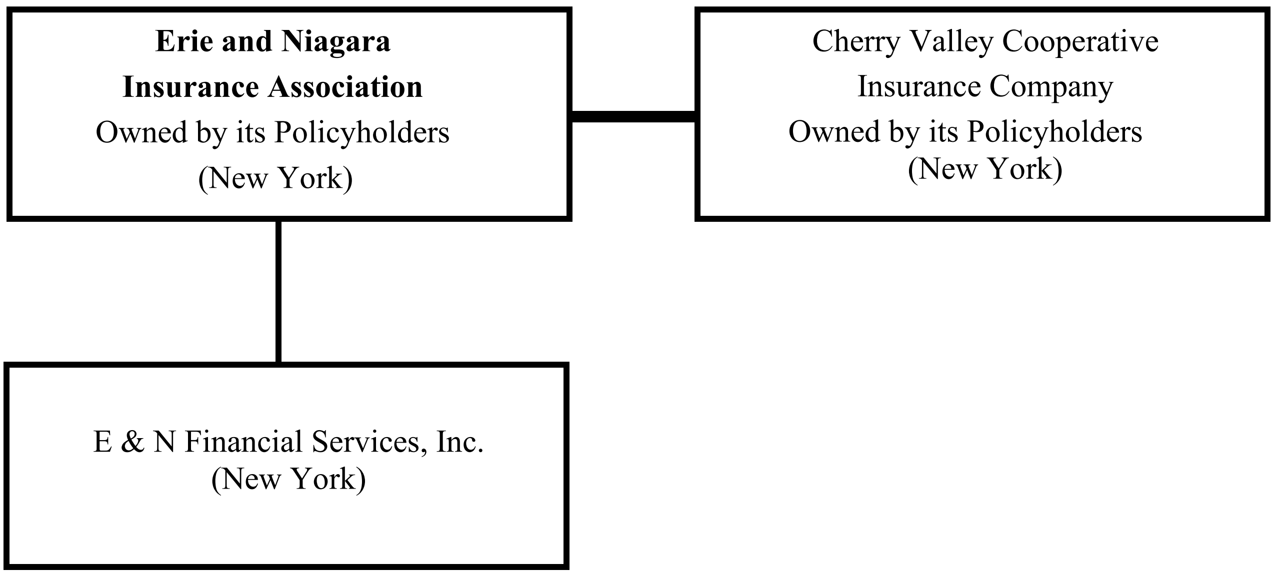
D. Affiliated Group

As of December 31, 2018, the Company was affiliated with CVCIC, by virtue of common officers, directors, and management.

On May 5, 1995, the Department issued the Company a non-exception letter to the organization of E & N Financial Services, Inc. ("ENFS"), a wholly owned stock subsidiary. ENFS was incorporated for the purpose of acting as an insurance agent and service subsidiary and was licensed on June 2, 1995. Income for ENFS is derived from commissions earned on business brokered from the Company to CVCIC. Other insurance companies may license ENFS for the purpose of offering insurance products not otherwise available from the Company. At December 31, 2018, the Company reported $143,966 as the value of its investment in ENFS.

The holding company registration statements were submitted to the Department pursuant to Circular Letter No. 10 (2010).

The following is an unabridged chart of the affiliated group at December 31, 2018:



Affiliated Group Agreements

At December 31, 2018, the Company was party to the following agreements with other members of its affiliated group:

Management and Service Agreements

Effective January 1, 2010, the Company entered into an intercompany management and service agreement with its affiliate, CVCIC. Pursuant to the terms of the agreement, expenses incurred and paid for by the Company, in the course of providing services under this agreement, are to be allocated between the two companies in a manner consistent with Department Regulation 30. The Company will provide, on a quarterly basis, an itemized bill to CVCIC for its share of such allocated expenses and CVCIC shall pay each such bill within 30 days of receipt. This Department issued a letter of non-objection relative to the implementation of the agreement on January 27, 2010.

Effective January 1, 1996, an agreement was entered into between the Company and its subsidiary, ENFS, whereby the Company provides specified management and operational services to ENFS. The agreement also provides for operating expenses incurred and paid for by the Company in the course of providing services under this agreement, to be allocated between the two companies in a manner consistent with Department Regulation 30. The Company will provide, on a quarterly basis, an itemized bill to ENFS for its share of such allocated expenses and ENFS shall pay each such bill within 30 days of receipt. The agreement was filed with this Department pursuant to Section 1606(c)(4) of the New York Insurance Law.

Tax Allocation Agreement

Effective June 17, 2004, the Company entered into a tax allocation agreement with ENFS. Pursuant to the terms of the agreement, the parties expect to file consolidated federal income tax returns. The agreement states that the consolidated tax liability will be allocated in the ratio each member's separate taxable income bears to the sum of the separate taxable income of all members having taxable income for the year. Consistent with the requirements of Department Circular Letter No. 33 (1979), the executed tax allocation agreement was submitted to the Department. The Department found the agreement to be unobjectionable per its letter dated June 21, 2004.

E. Significant Ratios

The Company's operating ratios, computed as of December 31, 2018, fall within the benchmark ranges set forth in the Insurance Regulatory Information System of the NAIC.

Operating Ratios	Result
Net premiums written to policyholders' surplus	44%
Adjusted liabilities to liquid assets	30%
Two-year overall operating	75%

Underwriting Ratios

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

	Amount	Ratio
Losses and loss adjustment expenses incurred	$148,347,698	45.35%
Other underwriting expenses incurred	133,410,761	40.79%
Net underwriting gain (loss)	45,324,771	13.86%
Premiums earned	$327,083,230	100.00%

The Company's reported risk-based capital ("RBC") score was 2,861.4% at December 31, 2018**.** 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.

3. FINANCIAL STATEMENTS

A. Balance Sheet

The following shows the assets, liabilities and surplus as regards policyholders as of December 31, 2018, as reported by the Company:

Assets

	Assets	Assets Not Admitted	Net Admitted Assets
Bonds	$179,743,186	$ 0	$179,743,186
Common stocks (stocks)	43,057,821	0	43,057,821
Properties occupied by the company	1,509,390	0	1,509,390
Cash, cash equivalents and short-term investments	10,774,416	0	10,774,416
Investment income due and accrued	1,738,894	0	1,738,894
Uncollected premiums and agents' balances in the course of collection	2,312,891	84,792	2,228,099
Deferred premiums, agents' balances and installments booked but deferred and not yet due	9,422,537	0	9,422,537
Amounts recoverable from reinsurers	768,702	0	768,702
Current federal and foreign income tax recoverable and interest thereon	813,636	0	813,636
Net deferred tax asset	370,525	0	370,525
Electronic data processing equipment and software	229,783	46,760	183,023
Furniture and equipment, including health care delivery assets	142,410	142,410	0
Receivables from parent, subsidiaries and affiliates	8,205	0	8,205
Prepaid pension	2,235,578	2,235,578	0
Advances	90,455	90,455	0
Finance charges receivable	52,869	52,869	0
Non-admitted prepaid pension asset	(1,643,344)	(1,643,344)	0
Total assets	$251,627,954	$1,009,520	$250,618,434

Liabilities, Surplus and Other Funds

Liabilities

Losses and Loss Adjustment Expenses		$ 24,714,251
Commissions payable, contingent commissions and other similar charges		5,812,279
Other expenses (excluding taxes, licenses and fees)		4,927,933
Taxes, licenses and fees (excluding federal and foreign income taxes)		59,532
Unearned premiums		42,064,363
Advance premium		1,677,834
Ceded reinsurance premiums payable (net of ceding commissions)		174,874
Amounts withheld or retained by company for account of others		132,720
Remittances and items not allocated		156,531
Post-retirement benefits liability		118,639
Total liabilities		$ 79,838,956
Surplus and other funds		
Unassigned funds (surplus)	$170,779,478	
Surplus as regards policyholders		170,779,478
Total liabilities, surplus and other funds		$250,618,434

Note: The Internal Revenue Service has not audited tax returns covering tax years 2014 through 2018. 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 $59,571,879, as detailed below:

Underwriting Income		
Premiums earned		$327,083,230
Deductions:		
Losses and loss adjustment expenses incurred	$148,347,698	
Other underwriting expenses incurred	133,410,761	
Total underwriting deductions		281,758,459
Net underwriting gain or (loss)		$ 45,324,771
Investment Income		
Net investment income earned	$ 28,947,930	
Net realized capital gain	428,468	
Net investment gain or (loss)		29,376,398
Other Income		
Net gain or (loss) from agents' or premium balances charged off	$ (507,848)	
Finance and service charges not included in premiums	4,263,595	
Capital gain/(loss) on disposal of assets	(13,037)	
Total other income		3,742,710
Net income before dividends to policyholders and before federal and foreign income taxes		$78,443,879
Dividends to policyholders		0
Net income after dividends to policyholders but before federal and foreign income taxes		$78,443,879
Federal and foreign income taxes incurred		18,872,000
Net income		$59,571,879

C. Capital and Surplus

Surplus as regards policyholders increased $64,270,079 during the five-year examination period January 1, 2014 through December 31, 2018, as reported by the Company, detailed as follows:

	Gains in Surplus	Losses in Surplus	
Surplus as regards policyholders as reported by the Company as of December 31, 2013			$106,509,399
Net income	$59,571,879		
Net unrealized capital gains or (losses)	5,804,490		
Change in net deferred income tax		$ 698,274	
Change in nonadmitted assets	508,086		
Pension and post retirement activity	0	916,101	
Total gains and losses	$65,884,455	$1,614,375	
Net increase (decrease) in surplus			64,270,079*
Surplus as regards policyholders as reported by the Company as of December 31, 2018			$170,779,478

* Rounding difference of $1

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 $24,714,251 is the same as reported by the Company as of December 31, 2018. 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.

The examiner obtained detailed claims data for the examination period to verify that claims were separately distinguished as catastrophe or large/significant exposure type claims. Seventeen claims were not properly coded with the catastrophe code and were not included in the reinsurance recoverable. Also, two claims were identified that were not wind or windstorm claims and were incorrectly coded with the catastrophe code. Those claims were incorrectly included in the reinsurance recoverable. The net effect of these errors, including the effect of reinstatement premium, was an understatement of the reinsurance recoverable of $36,906.

This amount is immaterial and no examination changes are required; however, it is recommended that the Company strengthen its controls to ensure catastrophe and other large/significant claims are separately identified and evaluated from other claims.

5. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

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

ITEM		PAGE NO.
A.	Accounts and Records	
i.	It was recommended that the Company incorporate in the contract for service with the external auditor (CPA) the required statement/language as stipulated by Department Regulation 118 Section 89.8(a).	12
	The Company has complied with this recommendation.	
ii.	It was recommended that the Company comply with the requirements of Section 1409(a) of the New York Insurance Law by limiting investments in any one institution to ten percent of admitted assets.	12
	The Company has complied with this recommendation.	

6. SUMMARY OF COMMENTS AND RECOMMENDATIONS

ITEM		PAGE NO.
A.	Loss and Loss Adjustment Expense Reserves	
	It is recommended that the Company strengthen its controls to ensure catastrophe and other large/significant claims are separately identified and evaluated from other claims.	15

Respectfully submitted,

_______________/S/________________

Susan Weijola, CPCU
Associate Insurance Examiner

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

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

____________/S/_____________
Susan Weijola

Subscribed and sworn to before me

this__________ day of ____________________, 2024.

APPOINTMENT NO. 31964

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:*

Susan Weijola

as a proper person to examine the affairs of the

Erie and Niagara Insurance Association

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

COMPANY

with such other information as she 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 8th day of September, 2019

LINDA A. LACEWELL
Superintendent of Financial Services

By:

Joan Riddell
Deputy Bureau Chief