



**REPORT ON EXAMINATION
OF
OTSEGO MUTUAL FIRE INSURANCE COMPANY
AS OF DECEMBER 31, 2022**

**EXAMINER:
DATE OF REPORT:**

**LAMIN JAMMEH
NOVEMBER 20, 2023**

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KATHY HOCHUL
Governor



ADRIENNE A. HARRIS
Superintendent

November 20, 2023

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 32481 dated February 15, 2023, attached hereto, I have made an examination into the condition and affairs of Otsego Mutual Fire Insurance Company as of December 31, 2022, and submit the following report thereon.

Wherever the designation “the Company” appears herein without qualification, it should be understood to indicate Otsego Mutual Fire 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 Otsego Mutual Fire Insurance Company, a single-state insurer. However, because the Company participates in a catastrophe pool wherein the premiums derive from at least one other state, in accordance with the National Association of Insurance Commissioners (“NAIC”) guidelines, the Company is considered a multi-state insurer. The previous examination was conducted as of December 31, 2017. This examination covered the five-year period from January 1, 2018 through December 31, 2022. Transactions occurring subsequent to this period were reviewed where deemed appropriate by the examiner.

This examination was conducted in accordance with the 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
- 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

Otsego Mutual Fire Insurance Company was incorporated on March 10, 1897, under the laws of the State of New York, and commenced business on April 1, 1897. It was organized for the purpose of transacting business as a cooperative fire insurance corporation in the counties of Otsego and Chenango in

New York State. On December 27, 1910, a certificate was issued under Article IX of the provisions of the New York Insurance Law, authorizing the Company to transact business as an advance premium corporation in the New York counties of Otsego, Chenango, Delaware, Madison, Oneida, Orange, Sullivan, and Ulster.

On December 29, 1942, the Company merged with Chemical Mutual Fire Insurance Company, with the Company being the surviving entity. On this date, the corporate powers were amended to permit the Company to do business in the entire state of New York in accordance with the provisions of Section 367 of the New York Insurance Law, and wherever authorized by law, in any other state or the District of Columbia.

On June 12, 1943, the Company was authorized to issue non-assessable policies.

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 11 members. Two board meetings and two executive committee meetings were held each year of the examination period, thereby complying with Section 6624(b) of the New York Insurance Law. At December 31, 2022, the board of directors was comprised of the following 11 members:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Michael Daniel Callan New Hartford, New York	Attorney, Sanders Kahler LLP
Denise Julianna Clark Voorheesville, New York	Administrator, Cornell University
Kelley Burke Cough Sauquoit, New York	President, Otsego Mutual Fire Insurance Company
Kevin Scott Cough New Hartford, New York	Vice President, Otsego Mutual Fire Insurance Company
Terry Michael Gras West Winfield, New York	Secretary, Otsego Mutual Fire Insurance Company
Judith Burke Hamilton New Hartford, New York	Retired

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
John Hyland Hemmel New Hartford, New York	Executive Director, Health Friends, Inc.
Dion Alan Howard Edmeston, New York	Proprietor, Howard's Trailer Sales
Timothy Richard Johnson Edmeston, New York	Chief Executive Officer, Otsego Electric Cooperative, Inc.
Francis Kearn Peo West Winfield, New York	Retired
Cynthia Ann Woody Ilion, New York	Human Resources Data Specialist, Mohawk Valley Health System

As of December 31, 2022, the principal officers of the Company were as follows:

<u>Name</u>	<u>Title</u>
Kelley Burke Cough	President
Terry Michael Gras	Secretary
Gregory Michael Gaeta	Treasurer
Kevin Scott Cough	Vice President

B. Territory and Plan of Operation

As of December 31, 2022, 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
12	Collision
13	Personal injury liability
14	Property damage 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 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 \$597,134.

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>
2018	\$18,582,758	\$182,807	\$18,765,565
2019	\$18,888,631	\$187,765	\$19,076,396
2020	\$19,309,439	\$180,464	\$19,489,903
2021	\$20,042,698	\$200,193	\$20,242,891
2022	\$21,836,443	\$229,975	\$22,066,418

The Company's predominant line of business is homeowners, which accounted for 90% of the 2022 direct premium writings, followed by fire/allied lines, which accounted for 9%. Management notes that the Company markets its business through approximately 75 independent agents throughout New York State, some having multiple office locations. Within the agency force, there are approximately 23 wholesalers that utilize a network of brokers mainly throughout the New York City metropolitan area.

Assumed premiums represent the Company's participation in the Regional Reciprocal Catastrophe Pool.

C. Reinsurance Ceded

The Company has structured its ceded reinsurance program as follows:

<u>Type of Treaty</u>	<u>Cession</u>
<u>All lines Quota Share Property and Casualty</u>	50% of the business covered by the agreement after deducting all other reinsurance inuring to the benefit of the agreement, subject to a maximum ultimate net loss of \$60,000 each loss and a per occurrence limit of \$10,417,000. Terrorism coverage is limited to \$5,210,000 in aggregate during any profit period.
<u>Facultative First Surplus Property</u>	Net retention of at least \$5,000 (after 50% quota share) on each risk. The reinsurer will automatically be liable on a pro-rata basis subject to a maximum limit of \$500,000 any one risk and \$24,791,000 per

occurrence. Terrorism coverage is limited to \$8,260,000 in aggregate during any profit period.

Property Per Risk and Casualty
Excess of Loss

\$440,000 excess \$60,000 each risk (or any one location as respects Inland Marine), each loss occurrence subject to an occurrence limit of \$1,320,000.

Property Catastrophe Excess of Loss
(three layers)

50% of \$15,500,000 excess \$3,500,000 ultimate net loss, each occurrence, not to exceed \$4,000,000 or \$11,500,000 respectively, with respect to per occurrence limit and per occurrence maximum, respectively, during the term of the agreement 100% excess \$19,000,000 ultimate net loss, each occurrence, not to exceed \$26,000,000 with respect to all occurrences during the term of the agreement.

It is the Company's policy to obtain the appropriate collateral for its cessions to unauthorized reinsurers. Letters of credit and trust accounts obtained by the Company to take credit for cessions to unauthorized reinsurers were reviewed for compliance with Department Regulations 133 and 114, respectively. 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 an attestation from the Company's President and Corporate Secretary 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. Significant Ratios

The Company's operating ratios, computed as of December 31, 2022, 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	3%
Adjusted liabilities to liquid assets	11%
Two-year overall operating	18%

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	\$13,414,427	57.59%
Other underwriting expenses incurred	1,360,721	5.84%
Net underwriting gain (loss)	<u>8,519,048</u>	<u>36.57%</u>
Premiums earned	<u>\$23,294,196</u>	<u>100.00%</u>

The Company's reported risk-based capital ("RBC") score was 1,507.6% at December 31, 2022. 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, 2022, as reported by the Company:

<u>Assets</u>	<u>Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>
Bonds	\$ 84,637,318	\$ 0	\$ 84,637,318
Common stocks (stocks)	69,994,106	0	69,994,106
First liens - mortgage loans on real estate	143,249	0	143,249
Properties occupied by the company	505,639	0	505,639
Cash, cash equivalents and short-term investments	7,689,836	0	7,689,836
Cash value life insurance	4,709,943	0	4,709,943
Investment income due and accrued	641,294	0	641,294
Uncollected premiums and agents' balances in the course of collection	950,597	11,247	939,350
Deferred premiums, agents' balances and installments booked but deferred and not yet due	538,080	0	538,080
Amounts recoverable from reinsurers	4,748	0	4,748
Current federal and foreign income tax recoverable and interest thereon	325,493	0	325,493
Electronic data processing equipment and software	27,495	0	27,495
Furniture and equipment, including health care delivery assets	275,584	275,584	0
Pools and associations	33,921	0	33,921
Prepaid pension asset	7,304,249	7,304,249	0
Overfunded plan asset	<u>4,792,993</u>	<u>4,792,993</u>	<u>0</u>
Total assets	<u>\$182,574,543</u>	<u>\$12,384,073</u>	<u>\$170,190,470</u>

Liabilities, Surplus and Other FundsLiabilities

Losses and loss adjustment expenses	\$1,797,606
Commissions payable, contingent commissions and other similar charges	(701,226)
Other expenses (excluding taxes, licenses and fees)	531,756
Taxes, licenses and fees (excluding federal and foreign income taxes)	75,079
Net deferred tax liability	9,492,339
Unearned premiums	3,382,582
Advance premium	308,480
Ceded reinsurance premiums payable (net of ceding commissions)	1,944,831
Amounts withheld or retained by company for account of others	(3)
Provisions for supplemental executive retirement plans (SERPS)	<u>1,700,426</u>
Total liabilities	\$18,531,870

Surplus and Other Funds

Special contingent surplus	\$ 597,134
Unassigned funds (surplus)	<u>151,061,466</u>
Surplus as regards policyholders	<u>\$151,658,600</u>
Total liabilities, surplus and other funds	<u>\$170,190,470</u>

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

B. Statement of Income

The net income for the examination period as reported by the Company was \$24,293,914, as detailed below:

Underwriting Income

Premiums earned		\$23,294,196
Deductions:		
Losses and loss adjustment expenses incurred	\$13,414,427	
Other underwriting expenses incurred	<u>1,360,721</u>	
Total underwriting deductions		<u>14,775,148</u>
Net underwriting gain or (loss)		\$ 8,519,048

Investment Income

Net investment income earned	\$12,599,523	
Net realized capital gain	<u>4,709,479</u>	
Net investment gain or (loss)		17,309,002

Other Income

Net gain or (loss) from agents' or premium balances charged off	\$ (53,318)	
Finance and service charges not included in premiums	169,884	
Life insurance of employees	737,831	
NAMICO reinsurance pool	8,057	
New York Fair Plan other income	(313,150)	
Income from other sources	(10,737)	
Gain on sale of equipment	89,226	
Gain on sale of real estate	(15,747)	
Loss on disposal of furniture fixture and equipment	<u>(50,617)</u>	
Total other income		<u>561,429</u>
Net income before federal and foreign income taxes		\$26,389,479
Federal income taxes incurred		<u>2,095,565</u>
Net income		<u>\$24,293,914</u>

C. Capital and Surplus

Surplus as regards policyholders increased \$34,839,713 during the five-year examination period January 1, 2018 through December 31, 2022, as reported by the Company, detailed as follows:

Surplus as regards policyholders as reported by the Company as of December 31, 2017			\$116,818,887
	<u>Gains in Surplus</u>	<u>Losses in Surplus</u>	
Net income	\$24,293,914		
Net unrealized capital gains	13,892,657		
Change in net deferred income tax		\$ 237,839	
Change in nonadmitted assets		12,173,118	
SSAP102 transition liability	1,172,034		
Provisions for SERPS	(190,176)		
Change in nonadmitted-overfunded plan asset	<u>8,082,241</u>	<u>0</u>	
Total gains and losses	\$47,250,670	\$12,410,957	
Net increase (decrease) in surplus			<u>34,839,713</u>
Surplus as regards policyholders as reported by the Company as of December 31, 2022			<u>\$151,658,600</u>

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

4. LOSSES AND LOSS ADJUSTMENT EXPENSES

The Department performed a review of the Company's loss and loss adjustment expense ("L&LAE") reserves as of December 31, 2022. The Department finds the carried reserve liability as of December 31, 2022, of \$1,797,606 deficient by \$455,000, representing 0.3% of surplus and 25.3% of net L&LAE reserves. This deficiency represents the L&LAE runoff for accident years 2022 and prior as of September 30, 2023. As this deficiency has already been recognized, no further adjustment to the financial statements is necessary. 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.

Paragraph 7C of the NAIC Instructions for the Statement of Actuarial Opinion states:

“The Actuarial Report must also include an exhibit that reconciles and maps the data used by the Appointed Actuary, consistent with the segmentation of exposure or liability groupings used in the Appointed Actuary’s analysis, to the Annual Statement Schedule P line of business reporting. An explanation should be provided for any material differences.”

A review shows that the 2022 Actuarial Report was missing an exhibit reconciling the actuarial data to Schedule P of the Company’s 2022 Annual Statement.

It is recommended that the Company’s Actuarial Report include an exhibit detailing the reconciliation of actuarial data to Schedule P of the Annual Statement.

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

ITEM

PAGE NO.

A. Losses and Loss Adjustment Expenses

It is recommended that the Company’s Actuarial Report include an exhibit detailing the reconciliation of actuarial data to Schedule P of the Annual Statement.

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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 _____, 2024.

APPOINTMENT NO. 32481

NEW YORK STATE

DEPARTMENT OF FINANCIAL SERVICES

I, Adrienne A. Harris, 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

Otsego Mutual Fire 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 15th day of February, 2023

*ADRIENNE A. HARRIS
Superintendent of Financial Services*

By:

Joan Riddell

*Joan Riddell
Deputy Bureau Chief*

