



**REPORT ON EXAMINATION  
OF  
EASTERN MUTUAL INSURANCE COMPANY  
AS OF DECEMBER 31, 2019**

**EXAMINER:  
DATE OF REPORT:**

**LAMIN JAMMEH  
MAY 6, 2021**

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KATHY HOCHUL  
Governor



ADRIENNE A. HARRIS  
Superintendent

February 20, 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 32133 dated December 16, 2020, attached hereto, I have made an examination into the condition and affairs of Eastern Mutual Insurance Company as of December 31, 2019, and submit the following report thereon.

Wherever the designation "the Company" appears herein without qualification, it should be understood to indicate Eastern 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.

## 1. SCOPE OF EXAMINATION

The Department has performed an examination of Eastern Mutual Insurance Company, a single-state insurer. The previous examination was conducted as of December 31, 2014. This examination covered the five-year period from January 1, 2015 through December 31, 2019. 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
- Holding company 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 comments and recommendations 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

Eastern Mutual Insurance Company was organized on January 8, 1855 as the Farmers' Fire Insurance Association of the Towns of Greenville, Dunham, Westerlo, and Rensselaerville for the purpose of transacting business as an assessment co-operative fire insurance corporation in the counties of Greene and Albany in this State. Subsequently, the Company's territory was extended to include all of the counties of New York State, excluding the counties of New York, Kings, Queens, Bronx and Richmond.

In 1969, the Department approved a change in the name of the Company to the Eastern Co-operative Insurance Company. Effective July 1, 1992, the Department approved a merger of Schoharie & Schenectady Mutual Insurance Association into Eastern Co-operative Insurance Association (surviving corporation). Concurrent with the merger, the Company's license was amended to indicate its new name, Eastern Mutual Insurance Company

### 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 15 members. The board meets four times during each calendar year. At December 31, 2019, the board of directors was comprised of the following nine members:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Valerie A. Davis Greenville, New York	Retired
Elizabeth J. Friedland Albany, New York	Retired
Leslie Hallenbeck East Durham, New York	Vice President/Secretary, Eastern Mutual Insurance Company
Scott T. Jeffers Oriskany Falls, New York	President, Sauquoit Valley Insurance Company
Kent L. Johnson Rensselaer, New York	President/Treasurer, Eastern Mutual Insurance Company
William R. Scrafford Greenville, New York	Chairman of the Board, Eastern Mutual Insurance Company

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Allyn P. Wright Medusa, New York	Retired
Fred S. Zeitler Greenville, New York	CPA, Self employed
Alan P. Zuk Berne, New York	Retired

As of December 31, 2019, the principal officers of the Company were as follows:

<u>Name</u>	<u>Title</u>
Kent L. Johnson	President/Treasurer
Leslie A. Hallenbeck	Vice President/Secretary

B. Territory and Plan of Operation

As of December 31, 2019, 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
15	Workers' compensation and employers' liability
19	Motor vehicle and aircraft physical damage
20	Marine and inland marine

The Company is also licensed to accept and cede reinsurance as provided for in Section 6606 of the New York Insurance Law.

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 \$100,000.

The Company did not assume any premiums during the exam period. The following schedule shows the direct premiums written by the Company for the period under examination:

<u>Calendar Year</u>	<u>Total Gross Premiums</u>
2015	\$8,214,311
2016	\$8,502,612
2017	\$8,543,417
2018	\$8,562,753
2019	\$8,322,722

The Company predominantly writes commercial multiple peril lines and homeowners' multiple peril lines of business, which accounted for 56% and 29%, respectively, of the 2019 direct premium written. The business is written through approximately 209 independent agents in upstate New York.

#### C. Reinsurance Ceded

The Company has structured its ceded reinsurance program as follows:

<u>Type of Treaty</u>	<u>Cession</u>
<u>Multiple Line Excess of Loss</u> 100% Authorized	<u>Property Business</u> : \$1,100,000 excess of \$150,000 each loss, each risk; limit \$3,300,000 each loss occurrence. <u>Casualty Business</u> : \$850,000 excess \$150,000 each loss occurrence. <u>Casualty and Property combined</u> : In the event of a loss occurrence involving at least one property and one casualty policy: \$850,000 excess \$150,000 each loss occurrence.
<u>Casualty Clash Excess of Loss</u> 100% Authorized	\$1,000,000 excess of \$1,000,000 each loss occurrence.
<u>Property Catastrophe Excess of Loss (3 Layers)</u> 100% Authorized	95% of \$250,000 excess of \$500,000 each loss occurrence. 95% of \$750,000 excess of \$750,000 each loss occurrence. 100% of ultimate net loss in excess of \$1,500,000.

<u>Type of Treaty</u>	<u>Cession</u>
<u>Equipment Breakdown</u> 100% Authorized	100% cession not exceeding \$25,000 annual aggregate as respect to each policy.

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 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

Affiliation with Union Mutual Fire Insurance Company

In 2000, the Company entered into an affiliation agreement with Union Mutual Fire Insurance Company of Vermont (Union Mutual). In June of 2019, the affiliation was officially terminated. The services provided by Union Mutual were replaced with selected vendors following a diligent evaluation process.

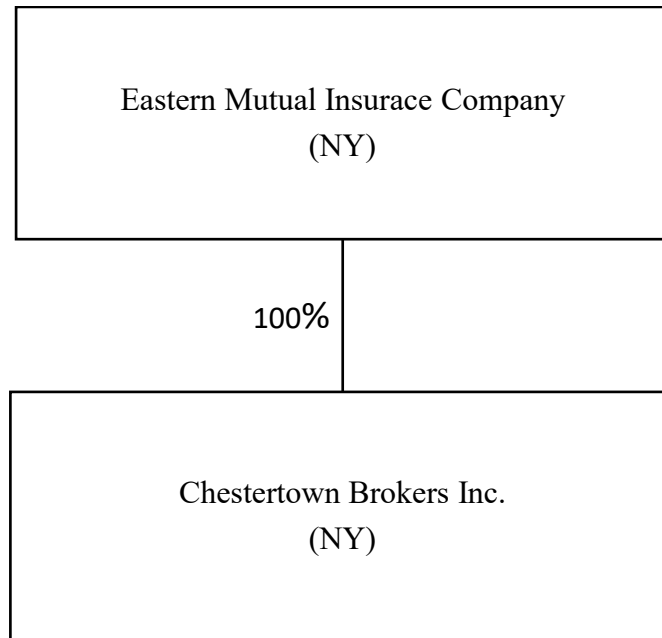
Chestertown Brokers, Inc.

In February 1982, the Department approved the organization of a wholly owned subsidiary called Chestertown Brokers, Inc. (“Chestertown”). The purpose of the subsidiary is to provide additional property and casualty outlets to agents of the Company for lines of business not written by the Company. In 1987, the board of directors of the Company appointed Chestertown as an agent of the Company.



Chestertown is located at the Company's home office. An agreement was entered into between the Company and Chestertown whereby the Company provides clerical and management services to Chestertown. The agreement was filed with this Department.

The following is a chart of the affiliated group at December 31, 2019:



E. Significant Ratios

The Company's operating ratios, computed as of December 31, 2019, 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	29%
Adjusted liabilities to liquid assets	29%
Two-year overall operating	77%

Underwriting Ratios

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

	<u>Amounts</u>	<u>Ratio</u>
Losses and loss adjustment expenses incurred	\$14,947,040	50.17%
Other underwriting expenses incurred	11,460,770	38.47%
Net underwriting gain (loss)	<u>3,382,990</u>	<u>11.36%</u>
Premiums earned	<u>\$29,790,800</u>	<u>100.00%</u>

The Company's reported risk-based capital ("RBC") score was 2,104.1% at December 31, 2019. The RBC 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 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, 2019, as reported by the Company:

<u>Assets</u>	<u>Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>
Bonds	\$19,475,114	\$ 0	\$19,475,114
Common stocks (stocks)	6,350,675	0	6,350,675
Properties occupied by the company	612,584	0	612,584
Cash, cash equivalents and short-term investments	1,348,183	0	1,348,183
Investment income due and accrued	158,593	0	158,593
Uncollected premiums and agents' balances in the course of collection	42,736	10	42,726
Deferred premiums, agents' balances and installments booked but deferred and not yet due	1,276,280	313	1,275,967
Amounts recoverable from reinsurers	1,300	0	1,300
Electronic data processing equipment and software	77,372	77,372	0
Furniture and equipment, including health care delivery assets	26,589	26,589	0
Life insurance asset	480,054	0	480,054
Auto	<u>34,527</u>	<u>34,527</u>	<u>0</u>
Total assets	<u>\$29,884,007</u>	<u>\$138,811</u>	<u>\$29,745,196</u>

Liabilities, surplus and other fundsLiabilities

Losses and loss adjustment expenses	\$3,663,218
Commissions payable, contingent commissions and other similar charges	290,864
Other expenses (excluding taxes, licenses and fees)	158,134
Taxes, licenses and fees (excluding federal and foreign income taxes)	55,071
Current federal and foreign income taxes	60,000
Net deferred tax liability	305,781
Unearned premiums	4,197,634
Advance premium	117,419
Ceded reinsurance premiums payable (net of ceding commissions)	(48,392)
Amounts withheld or retained by company for account of others	40,251
Remittances and items not allocated	660
Payable for securities	<u>357,629</u>
Total liabilities	\$9,198,269

Surplus and other funds

Special surplus funds-Assessment Cooperative	\$ 100,000
Unassigned funds (surplus)	<u>20,446,926</u>
Surplus as regards policyholders	<u>\$20,546,926</u>
Total liabilities, surplus and other funds	<u>\$29,745,195</u>

Note: The Internal Revenue Service has not audited tax returns covering tax years 2015 through 2019. 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 \$5,344,075, as detailed below:

Underwriting Income

Premiums earned		\$29,790,800
Deductions:		
Losses and loss adjustment expenses incurred	\$14,947,040	
Other underwriting expenses incurred	<u>11,460,770</u>	
Total underwriting deductions		<u>26,407,810</u>
Net underwriting gain or (loss)		\$ 3,382,990

Investment Income

Net investment income earned	\$ 2,360,393	
Net realized capital gain	<u>486,059</u>	
Net investment gain or (loss)		\$ 2,846,452

Other Income

Net gain or (loss) from agents' or premium balances charged off	(17,531)	
Finance and service charges not included in premiums	604,957	
Gain in sale of auto/NY solar credit	32,162	
Life insurance asset	<u>(19,946)</u>	
Total other income		\$ <u>599,642</u>
Net income before federal and foreign income taxes		6,829,084
Federal and foreign income taxes incurred		<u>1,485,009</u>
Net income		\$ <u>5,344,075</u>

C. Capital and Surplus

Surplus as regards policyholders increased \$6,534,276 during the five-year examination period January 1, 2015 through December 31, 2019, as reported by the Company, detailed as follows:

Surplus as regards policyholders as reported by the Company as of December 31, 2014	<u>Gains in Surplus</u>	<u>Losses in Surplus</u>	\$14,012,650
Net income	\$5,344,075		
Net unrealized capital gains or (losses)	1,341,065		
Change in net deferred income tax		\$139,706	
Change in nonadmitted assets	<u>0</u>	<u>11,158</u>	
Total gains and losses	<u>\$6,685,140</u>	<u>\$150,864</u>	
Net increase (decrease) in surplus			<u>6,534,276</u>
Surplus as regards policyholders as reported by the Company as of December 31, 2019			<u>\$20,546,924</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 \$3,663,218 is the same as reported by the Company as of December 31, 2019. 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. SUBSEQUENT EVENTS

On March 11, 2020, the World Health Organization declared an outbreak of a novel coronavirus (“COVID-19”) pandemic. The pandemic presented significant uncertainty to the U.S. and global insurance and reinsurance industry, with the full effect of COVID-19 still unknown. The Department has been in communication with the Company regarding the impact of COVID-19 on its operations and financial position.

**6. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION**

The prior report on examination contained one recommendation as follows (page number refers to the prior report):

<u>ITEM</u>		<u>PAGE NO.</u>
A.	<u>Accounts and Records</u> It is recommended that the Company exercise greater care when entering data from a loss notice to the claim system. It is also recommended that all data be verified for accuracy either prior to entry or upon claim assignment.	9

The Company has complied with this recommendation.

**8. SUMMARY OF COMMENTS AND RECOMMENDATIONS**

This report on examination does not contain any comments or recommendations.

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.



*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:*

***Lamin Jammeh***

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

***Eastern 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 24th day of September, 2020*

*LINDA A. LACEWELL  
Superintendent of Financial Services*

*By:*

*Joan Riddell*

*Joan Riddell  
Deputy Bureau Chief*

