



**REPORT ON EXAMINATION
OF
PITTSTOWN COOPERATIVE FIRE INSURANCE COMPANY
(NOW KNOWN AS SECURITY COOPERATIVE INSURANCE COMPANY)**

AS OF DECEMBER 31, 2020

**EXAMINER:
DATE OF REPORT:**

**LEE PROWELL
NOVEMBER 15, 2021**

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KATHY HOCHUL
Governor



ADRIENNE A. HARRIS
Superintendent

March 1, 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 32191 dated January 27, 2021, attached hereto, I have made an examination into the condition and affairs of Pittstown Cooperative Fire Insurance Company as of December 31, 2020, and submit the following report thereon. It is noted that the name of the Company was changed to Security Cooperative Insurance Company, effective August 3, 2021.

Wherever the designation "the Company" appears herein without qualification, it should be understood to indicate Pittstown Cooperative 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 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
- 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 matters that involve departures from laws, regulations, or rules or that are deemed to require explanation or description.

2. DESCRIPTION OF COMPANY

Pittstown Cooperative Fire Insurance Company was incorporated under the laws of the State of New York on December 28, 1910. It became licensed on December 29, 1910 and commenced business on January 10, 1911. The Company was originally authorized to transact business only in the town of Pittstown, New York. In March 1954, its license was amended to extend its territory to all of Rensselaer County, and in May 1983, it was amended to include Washington County. In May 2014, the Company’s

license was again amended to extend its territory to all counties in New York, except Bronx, Kings, New York, Queens, and Richmond.

Effective August 3, 2021, the Company changed its name to Security Cooperative 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 seven nor more than 13 members. The board meets four times during each calendar year. At December 31, 2020, the board of directors was comprised of the following eight members:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Allen Cornell Hoosick Falls, New York	Retired, Farmer
Delbert L. Hall Dryden, New York	Retired, Security Mutual Insurance Company
Joan H. Holden Lansing, New York	Retired, Security Mutual Insurance Company
William H. Maddren Cortland, New York	Retired, Insurance Agent
Thomas R. Ruane Lansing, New York	Retired, Security Mutual Insurance Company
David Schmidt Melrose, New York Jayne M. Tarbox Troy, New York	Retired, Security Mutual Insurance Company Receiver of Taxes and farm owner
Wilfred W. Wege Ballston Lake, New York	Retired

Effective April 1, 2014, the Company entered into an affiliation agreement with Security Mutual Insurance Company ("Security Mutual"), an advance premium cooperative insurance company domiciled in the State of New York. Pursuant to this agreement, Security Mutual is the controlling entity by virtue of

appointing a majority of the members of the Company's board of directors. The Department did not object to the implementation of the affiliation agreement.

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

<u>Name</u>	<u>Title</u>
Delbert L. Hall*	President
Thomas R. Ruane	Secretary/Treasurer
Wilfred W. Wege	Vice President

* Subsequent to the examination date, Delbert Hall resigned as President and was replaced by Ronald Wilder. Additionally, Lisa Kanellis was appointed Secretary of the Company.

B. Territory and Plan of Operation

As of December 31, 2020, the Company was licensed to write business solely in New York, within all counties except Bronx, Kings, New York, Queens, and Richmond

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

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

<u>Calendar Year</u>	<u>Direct Premiums</u>
2016	\$9,345
2017	\$8,407
2018	\$8,122
2019	\$7,030
2020	\$7,664

The Company did not assume any premiums during the examination period.

The Company writes fire and allied lines and inland marine business through two independent agents/brokers.

C. Reinsurance Ceded

Effective January 1, 2016, the Company entered into a 100% quota share reinsurance agreement with its affiliate, Securities Mutual, whereby the Company cedes all of its business to Security Mutual, including any amounts due for extra-contractual obligations and losses in excess of policy limits. The 100% quota share reinsurance agreement was reviewed for compliance with Article 15 of the New York Insurance Law. It is noted that the 100% quota share reinsurance agreement was filed with the Department pursuant to the provisions of Section 1505(d)(2) of the New York Insurance Law.

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

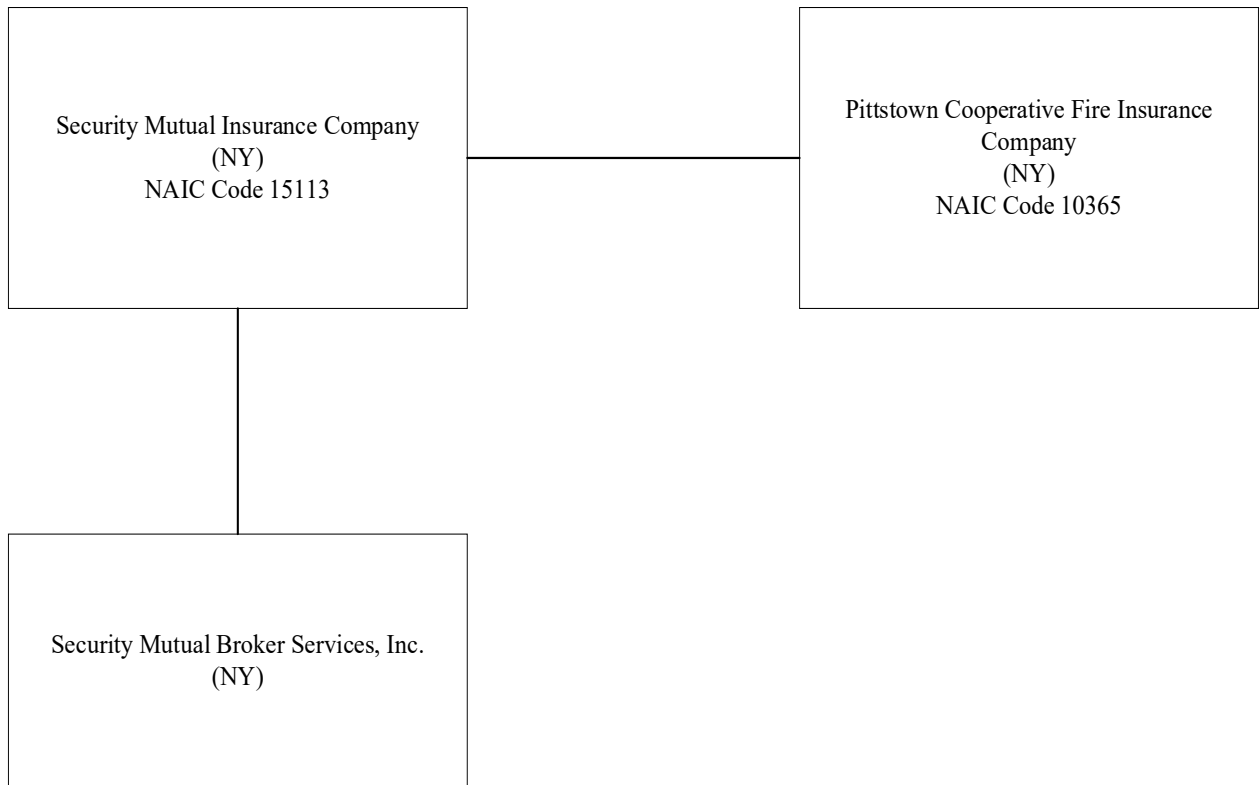
Examination review found that the Schedule F data reported by the Company in its filed annual statement accurately reflected its reinsurance transactions. Additionally, management has represented that the 100% quota share reinsurance agreement transfers both underwriting and timing risk as set forth in the NAIC Accounting Practices and Procedures Manual, Statement of Statutory Accounting Principles (“SSAP”) No. 62R.

Examination review indicated that the Company was not a party to any finite reinsurance agreements. The 100% quota share reinsurance agreement was accounted for utilizing reinsurance accounting as set forth in SSAP No. 62R.

D. Affiliated Group

As noted in Section 2A of this report, the Company entered into an affiliation agreement with Security Mutual, an advance premium insurance company domiciled in the State of New York, effective April 1, 2014. Pursuant to the affiliation agreement, Security Mutual is the controlling entity by virtue of holding a majority of the directors on the Company's board of directors. The Department did not object to the implementation of the agreement.

The following is an unabridged chart of the affiliated group as of December 31, 2020.



Effective August 3, 2021, the Company's name was changed to Security Cooperative Insurance Company.

Affiliated Group Agreements

As part of the affiliation agreement with Security Mutual, the Company was party to the following agreements as of December 31, 2020:

i. Expense Sharing Agreement

Pursuant to the provisions of the expense sharing agreement, Security Mutual and the Company desire to share certain expenses to reduce the overall operating expenses of each company. It is anticipated that Security Mutual will provide certain services to the Company and charge a service fee based on the actual time and costs to perform such services. The service fee will be determined based on time sheets maintained by the individuals who worked on each matter, with that individual's salary and benefits being proportionately charged to the company for which that individual performed services.

ii. Surplus Notes Agreement

Pursuant to the provisions of the surplus note agreement, which was issued in accordance with Section 1307 of the New York Insurance Law, the Company promises to pay the principal sum of \$1,000,000 to Security Mutual. The interest rate on the surplus note will be equal to the prime rate of interest on the first day of each calendar quarter and computed on and as of the last day of such calendar quarter. The surplus note has a due date of July 1, 2033. Principal or interest on the surplus note shall not be a liability nor an expense of the Company except to the extent that the payment has been approved by the Superintendent of the New York State Department of Financial Services.

Effective January 1, 2016, the Company entered into a 100% quota share reinsurance agreement with Security Mutual, which shall include any amounts due for extra-contractual obligations and losses in excess of policy limits. The term of the contract is perpetual.

The Department did not object to the implementation of these agreements.

Schedule Y

The NAIC Annual Statement Instructions provide that if the reporting entity is a member of an Insurance Holding Company System consisting of two or more affiliated persons, one or more of which is an insurer, the entity must complete Schedule Y, Parts 1, 1A, and 2 of its annual statement.

Schedule Y, Part 2 is designed to provide an overview of transactions among insurance holding company system members, including shareholder dividends, capital contributions, reinsurance recoverable or payable, and transactions involving one-half of one percent or more of the largest insurer's admitted assets as of the current year-end.

The Company and its affiliates conducted business transactions under each of the affiliated group agreements described above, however, it did not complete Schedule Y Part 2 of its filed annual statement.

It is recommended that the Company include an overview of transactions with members of its affiliated group in Schedule Y Part 2 of its filed annual statement, pursuant to the requirements of the NAIC Annual Statement Instructions.

E. Significant Ratios

The Company's operating ratio, computed as of December 31, 2020, are as follows:

<u>Operating Ratios</u>	<u>Result</u>
Adjusted liabilities to liquid assets	1%

The ratio of net premiums written to policyholders' surplus and the two-year overall operating ratio are not presented above because they are not meaningful due to the 100% quota share reinsurance agreement described in Section 2C of this report. The adjusted liabilities to liquid assets ratio falls within the benchmark range set forth in the Insurance Regulatory Information System of the NAIC.

Underwriting Ratios

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

	<u>Amounts</u>	<u>Ratios</u>
Losses and loss adjustment expenses incurred	\$ 0	0.00%
Other underwriting expenses incurred	156,394	9,737.17%
Net underwriting gain (loss)	<u>(154,787)</u>	<u>(9,637.17)%</u>
Premiums earned	\$ <u>1,606</u>	<u>100.00%</u>

The Company's risk-based capital ("RBC") score is not meaningful due to the 100% quota share reinsurance agreement described in Section 2C of this report.

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	\$349,837	\$ 0	\$349,837
Common stocks	52,349	0	52,349
Cash, cash equivalents and short-term investments	546,647	0	546,647
Investment income due and accrued	700	0	700
Uncollected premiums and agents' balances in the course of collection	(326)	0	(326)
Annuities	<u>27,278</u>	<u>0</u>	<u>27,278</u>
Total assets	<u>\$976,486</u>	\$ <u>0</u>	<u>\$976,486</u>

Liabilities, Surplus and Other Funds

Liabilities

Taxes, licenses, and fees (excluding federal and foreign income taxes)		\$ 566
Ceded reinsurance premiums payable (net of ceding commissions)		1,816
Amounts withheld or retained by company for account of others		298
Payable to parent, subsidiaries and affiliates		<u>7,355</u>
Total liabilities		\$ 10,035

Surplus and other funds

Special surplus funds	\$ 100,000	
Surplus notes	1,000,000	
Unassigned funds (surplus)	<u>(133,549)</u>	
Surplus as regards policyholders		<u>966,451</u>
Total liabilities, surplus and other funds		<u>\$976,486</u>

Note: The Company is exempt from federal income tax. Further, 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 \$(145,902), as detailed below:

Underwriting Income

Premiums earned		\$ 1,606
Deductions:		
Other underwriting expenses incurred	\$156,394	
Total underwriting deductions		<u>156,394</u>
Net underwriting gain or (loss)		\$(154,788)

Investment Income

Net investment income earned	\$ (8,160)	
Net realized capital gain	<u>17,046</u>	
Net investment gain or (loss)		<u>8,886</u>
Net income		<u>\$(145,902)</u>

C. Capital and Surplus

Surplus as regards policyholders decreased \$126,990 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			\$1,093,441
	<u>Gains in Surplus</u>	<u>Losses in Surplus</u>	
Net income		\$145,902	
Net unrealized capital gains or (losses)	\$18,913	_____0	
Total gains and losses	\$18,913	\$145,902	
Net increase (decrease) in surplus			(126,990)
Surplus as regards policyholders as reported by the Company as of December 31, 2020			\$ <u>966,451</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 \$0 is the same as reported by the Company as of December 31, 2020.

Effective January 1, 2016, the Company entered into a 100% quota share reinsurance agreement with Security Mutual, whereby Security Mutual agreed to assume a 100% quota share of all business written by the Company, which shall include any amounts due for extra-contractual obligations and losses in excess of policy limits.

5. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

The prior report on examination had no recommendations.

6. SUMMARY OF COMMENTS AND RECOMMENDATIONSITEMPAGE NO.

A.

Affiliated Group

It is recommended that the Company include an overview of transactions with members of its affiliated group in Schedule Y Part 2 of its filed annual statement, pursuant to the requirements of the NAIC Annual Statement Instructions.

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Respectfully submitted,

_____/S/_____
Lee Prowell,
Financial Services Examiner 4

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 _____, 2024.

APPOINTMENT NO. 32191

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

Pittstown Cooperative 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 27th day of January, 2021

LINDA A. LACEWELL
Superintendent of Financial Services

By:

Joan Riddell

Joan Riddell
Deputy Bureau Chief

