



**REPORT ON EXAMINATION
OF
CHAUTAUQUA PATRONS INSURANCE COMPANY
AS OF DECEMBER 31, 2020**

**EXAMINER:
DATE OF REPORT:**

**LEON W. TAMBUE
MARCH 18, 2022**

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KATHY HOCHUL
Governor



ADRIENNE A. HARRIS
Superintendent

February 23, 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 32244 dated April 30, 2021, attached hereto, I have made an examination into the condition and affairs of Chautauqua Patrons Insurance Company as of December 31, 2020, and submit the following report thereon.

Wherever the designation “the Company” appears herein without qualification, it should be understood to indicate Chautauqua Patrons 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 individual 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
- 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 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

Chautauqua Patrons Insurance Company was incorporated under the laws of the State of New York in 1877 as The Chautauqua Patrons Fire Relief Association, for the purpose of transacting business as an assessment co-operative fire insurance corporation in Chautauqua County, New York. Effective February 26, 1976, the Company changed its name to Chautauqua Patrons' Insurance Association. Effective July 17, 2002, the Company adopted its current name and amended its charter to add boiler and machinery to its authorized lines of business.

Effective November 26, 1999, the Company amended its charter to extend its territorial limits to include all counties in New York, except the counties of Bronx, Kings, New York, Queens, and Richmond, as well as the states of Pennsylvania and Ohio. Effective October 21, 2010, the Company amended its charter to remove the states of Pennsylvania and Ohio from its territory.

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 29 members. The board meets four times during each calendar year. At December 31, 2020, the board of directors was comprised of the following 11 members:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Lisa Allenson Bemus Point, New York	Banking, Community Bank
Sham Bahgat Fredonia, New York	Certified Public Accountant, Bahgat and Bahgat Agency
Douglas Bowen, Ripley, New York	Insurance Agent, Douglas A. Bowen Agency
Allen S. Chase Lake Suzy, Florida	Retired
Brenda Ireland Panama, New York	Insurance Agent, J. Edwards Insurance Agency
David L. Lipsey Bemus Point, New York	Retired

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Mark T. Prechtl Bemus Point, NY	President and Chief Executive Officer, Chautauqua Patrons Insurance Company
Ernest J. Rammelt Westfield, NY	Owner, Chautauqua Energy
William R. Reynolds, III Jamestown, NY	Retired
Edward P. Wright Jamestown, NY	Attorney, Wright, Wright, and Hampton

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

<u>Name</u>	<u>Title</u>
David I. Lipsey	Chairman
Mark T. Prechtl	President and Chief Executive Officer
Sham Bahgat	Secretary and Treasurer
Brian D. Willink	Executive Vice President
Allen S. Chase	Vice President

B. Territory and Plan of Operation

As of December 31, 2020, 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 (excluding workers' compensation)
19	Motor vehicle and aircraft physical damage (excluding aircraft physical damage)

20 Marine and inland marine (inland only)

The Company is also authorized 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 reinsurance business during the period under examination. 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	\$10,191,483
2017	9,962,737
2018	9,461,963
2019	10,399,230
2020	10,615,610

The Company predominantly writes homeowners' multiple peril and commercial multiple peril lines of business, which accounted for 47% and 41%, respectively, of its 2020 direct premium written. The business is written through approximately 215 independent agents located throughout the upstate New York area.

C. Reinsurance Ceded

The Company has structured its ceded reinsurance program as follows:

<u>Type of treaty</u>	<u>Cession</u>
<u>Property Excess of Loss</u> (2 layers)	1,250,000 excess of \$250,000 each loss each risk; layers one and two have occurrence limits of \$2,250,000 and \$1,500,000, respectively
<u>Casualty Excess of Loss</u>	\$850,000 excess of \$150,000 each loss occurrence.
<u>Casualty and Property combined</u>	\$150,000 excess of \$250,000, in the event of a loss occurrence involving at least one casualty and one property policy.

<u>Type of treaty</u>	<u>Cession</u>
<u>Property Catastrophe Excess of Loss</u>	100% excess of \$400,000 per occurrence.
<u>Casualty Clash Excess of Loss</u>	\$1,000,000 excess of \$1,000,000.
<u>Equipment Breakdown</u>	100% cession not exceeding \$5,000,000 any one accident.

All reinsurers are 100% authorized.

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 and an attestation from the Company's Chief Executive Officer and Treasurer 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. Holding Company System

The Company is not a part of any holding company system. However, it has a 100% ownership in Chautauqua Patrons Insurance Agency (the “Agency”). The Agency was incorporated to furnish an outlet for the Company’s agents to solicit certain kinds of insurance not offered by the Company. The Agency was inactive during the examination period.

E. Significant Ratios

The Company’s operating ratios, computed as of December 31, 2020, 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	61%
Adjusted liabilities to liquid assets	40%
Two-year overall operating	98%

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>Ratio</u>
Losses and loss adjustment expenses incurred	\$25,428,267	63.25%
Other underwriting expenses incurred	16,387,398	40.76%
Net underwriting gain (loss)	<u>(1,610,989)</u>	<u>(4.01)%</u>
Premiums earned	<u>\$40,204,676</u>	<u>100.00%</u>

The Company's reported risk-based capital ("RBC") score was 1,098.6% at December 31, 2020. 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, 2020, as reported by the Company:

<u>Assets</u>	<u>Assets</u>	<u>Assets Not</u> <u>Assets</u>	<u>Net Admitted</u> <u>Assets</u>
Bonds	\$ 9,914,847	\$ 0	\$ 9,914,847
Common stocks (stocks)	8,126,473	0	8,126,473
Properties occupied by the company	307,702	0	307,702
Cash, cash equivalents and short-term investments	3,652,797	0	3,652,797
Investment income due and accrued	95,602	0	95,602
Uncollected premiums and agents' balances in the course of collection	113,952	25,495	88,457
Deferred premiums, agents' balances and installments booked but deferred and not yet due	1,684,441	0	1,684,441
Amounts recoverable from reinsurers	34,260	0	34,260
Current federal and foreign income tax recoverable and interest thereon	35,789	0	35,789
Electronic data processing equipment and software	81,849	58,856	22,993
Prepaid expense	7,739	7,739	0
Other Accounts receivable	22	0	22
Taxes, licenses and fees recoverable	<u>4,499</u>	<u>0</u>	<u>4,499</u>
Total assets	<u>\$24,062,404</u>	<u>\$94,515</u>	<u>\$23,967,889</u>

Liabilities, surplus and other fundsLiabilities

Losses and loss adjustment expenses		\$ 2,920,549
Commissions payable, contingent commissions and other similar charges		759,617
Other expenses (excluding taxes, licenses and fees)		131,117
Unearned premiums		5,558,024
Advance premium		171,883
Ceded reinsurance premiums payable (net of ceding commissions)		301,324
Amounts withheld or retained by company for account of others		<u>2,968</u>
Total liabilities		\$10,394,102

Surplus and other funds

Special contingent surplus	\$ 100,000	
Unassigned funds (surplus)	<u>13,473,787</u>	
Surplus as regards policyholders		<u>\$13,573,787</u>
Total liabilities, surplus and other funds		<u>\$23,967,889</u>

Note: The Internal Revenue Service has not audited tax returns covering tax years 2016 through 2020. 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 \$1,544,088, as detailed below:

Underwriting Income

Premiums earned		\$40,204,676
Deductions:		
Losses and loss adjustment expenses incurred	\$25,428,267	
Other underwriting expenses incurred	<u>16,387,398</u>	
Total underwriting deductions		<u>41,815,665</u>
Net underwriting gain or (loss)		\$(1,610,989)

Investment Income

Net investment income earned	\$ 1,878,533	
Net realized capital gain	<u>772,913</u>	
Net investment gain or (loss)		2,651,446

Other Income

Net gain or (loss) from agents' or premium balances charged off	\$ (57,858)	
Finance and service charges not included in premiums	<u>408,458</u>	
Total other income		<u>350,600</u>
Net income before dividends to policyholders and before federal and foreign income taxes		\$ 1,391,057
Net income after dividends to policyholders but before federal and foreign income taxes		\$ 1,391,057
Federal and foreign income taxes incurred		<u>(153,031)</u>
Net income		\$ <u>1,544,088</u>

C. Capital and Surplus

Surplus as regards policyholders increased \$2,546,064 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			\$11,027,723
	<u>Gains in Surplus</u>	<u>Losses in Surplus</u>	
Net income	\$1,544,088		
Net transfers (to) from protected cell accounts			
Net unrealized capital gains or (losses)	1,024,957	\$ 0	
Change in net deferred income tax	37,552		
Change in nonadmitted assets	<u>0</u>	<u>60,533</u>	
Total gains and losses	<u>\$2,606,597</u>	<u>\$60,533</u>	
Net increase (decrease) in surplus			<u>2,546,064</u>
Surplus as regards policyholders as reported by the Company as of December 31, 2020			<u>\$13,573,787</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 \$2,920,549 is the same as reported by the Company as of December 31, 2020. 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 Company's reserves are concentrated in the commercial multiple peril line of business.

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 numbers refer to the prior report):

<u>ITEM</u>		<u>PAGE NO.</u>
A.	<u>Accounts and records</u> It was recommended that the Company execute a formal investment management agreement with its investment manager(s). The agreement should contain the appropriate provisions set forth in the NAIC Financial Condition Examiners Handbook.	8

The Company has complied with this recommendation.

7. SUMMARY OF COMMENTS AND RECOMMENDATIONS

This report contains no comments or recommendations.

Respectfully submitted,

_____/S/_____
Leon W. Tambue
Senior Insurance Examiner

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

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

_____/S/_____
Leon W. Tambue

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:

Leon Tambue

as a proper person to examine the affairs of the

Chautauqua Patrons 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 30th day of April, 2021

*LINDA A. LACEWELL
Superintendent of Financial Services*

By:

Joan Riddell

*Joan Riddell
Deputy Bureau Chief*

