



**REPORT ON EXAMINATION
OF
MIDSTATE MUTUAL INSURANCE COMPANY
AS OF DECEMBER 31, 2021**

**EXAMINER:
DATE OF REPORT:**

**SHEIK H. MOHAMED
FEBRUARY 17, 2023**

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KATHY HOCHUL
Governor



ADRIENNE A. HARRIS
Superintendent

April 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 32414 dated May 18, 2022, attached hereto, I have made an examination into the condition and affairs of Midstate Mutual Insurance Company as of December 31, 2021, and submit the following report thereon.

Wherever the designation “the Company” appears herein without qualification, it should be understood to indicate Midstate 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 Midstate Mutual Insurance Company, a single-state insurer. The previous examination was conducted as of December 31, 2017. This examination covered the four-year period from January 1, 2018, through December 31, 2021. 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

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

Midstate Mutual Insurance Company was incorporated under the laws of the State of New York on January 1, 1879, as the Farmers’ Mutual Indemnity Association of Moravia, New York (“the Association”), for the purpose of transacting business as an assessment cooperative fire insurance corporation. In 1924, the Association changed its corporate title to The Farmers' Mutual Indemnity Association of Cayuga County.

On March 31, 1982, the Association merged with The Farmers' Co-operative Fire Insurance Association of the Town of Clay, Camillus, Lysander, and Van Buren, with the Association being the surviving corporation under the title The Farmers' Mutual Indemnity Association.

Effective July 1, 1986, the Association merged with Cayuga County Farmers' Insurance Company, the Cayuga County Patrons' Fire Relief Association, the Farmers' Reliance Mutual Insurance Company, and the Southern Tier Co-operative Insurance Company. The Association was the surviving entity, and the current title, Midstate Mutual Insurance Company, was adopted.

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 11 members. The board meets four times during each calendar year. At December 31, 2021, the board of directors was comprised of the following nine members:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Jeffery A. Armstrong Williamsville, New York	President, Baptist Life
Matthew A. Benedict Skaneateles, New York	President and Chief Executive Officer, Midstate Mutual Insurance Company
James P. Chamberlain Auburn, New York	Retired, Midstate Mutual Insurance Company
Daniel J. Fessenden Union Springs, New York	Executive Director, Fred L. Emerson Foundation
John S. Fessenden King Ferry, New York	Senior Loan Officer, Farm Credit East, ACA
Richard H. Flanagan Marietta, New York	Retired, Onondaga Deputy Sheriff
Ellen M. O'Conner Fayetteville, New York	Consultant, Mintwood Solutions, LLC
Lyndon R. Odell Union Springs, New York	Consultant, Willet Dairy Farm

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Michael L. White Clay, New York	Marketing Manager, McNeil & Co. Inc.

As of December 31, 2021, the principal officers of the Company were as follows:

<u>Name</u>	<u>Title</u>
Matthew A. Benedict	President and Chief Executive Officer
James P. Chamberlain	Secretary
Michael L. White	Treasurer
John A. Gaines	Vice President of Information Technology

B. Territory and Plan of Operation

As of December 31, 2021, the Company was licensed to write business in all counties of New York State except Kings, Queens, Richmond, New York, and Bronx.

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 marine only)

Paragraphs 5, 6, 7, 8, 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 the Company's current capital structure, 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 any business during the examination period. The following schedule shows the direct written premiums by the Company for the period under examination:

<u>Calendar Year</u>	<u>Total Direct Premiums</u>
2018	\$13,121,992
2019	\$13,737,782
2020	\$14,209,103
2021	\$14,686,520

The Company underwrites predominantly commercial multiple peril and homeowners' multiple peril lines of business, which accounted for 53.4% and 37.5%, respectively of its direct premium writings in 2021. The Company obtains its business through approximately 147 current agencies or brokers in 259 locations.

C. Reinsurance Ceded

The Company places reinsurance with reinsurers that hold an A.M. Best financial strength rating of A- or higher. There are no significant counter-party risks related to the reinsurance recoverables of the Company. The Company considers its risk appetite and tolerance when determining the reinsurance program.

The Company has structured its ceded reinsurance program as follows:

<u>Treaty</u>	<u>Cession</u>
<u>Property excess of loss</u> (2 layers)	\$900,000 excess of \$350,000 ultimate net loss, each loss, each risk, subject to a limit of liability to the reinsurer of \$1,800,000 each loss occurrence.
<u>Casualty excess of loss</u> (2 layers)	\$650,000 excess of \$350,000 ultimate net loss, each loss occurrence, subject to a limit of liability to the reinsurer of \$650,000 each loss occurrence.
<u>Property and casualty combined</u>	\$350,000 excess of \$350,000 ultimate net loss each loss occurrence in the event of a loss involving at least one casualty policy and one property policy.

<u>Casualty clash excess of loss</u>	\$1,000,000 excess of \$1,000,000 ultimate net loss, each loss occurrence.
<u>Property catastrophe excess of loss</u>	Unlimited coverage excess of \$700,000 ultimate net loss, each occurrence. No claim shall be covered unless the loss occurrence involves three or more risks.
<u>Property facultative pro rata</u> (For properties with an insured value greater than \$1,250,000)	The contract is limited to a maximum of \$1,750,000 on any one risk after a minimum net retention of \$50,000.
<u>Property facultative excess</u> (For properties with an insured value greater than \$1,250,000)	The contract provides coverage for any amount over a \$1,250,000 with a maximum capacity of \$2,500,000.
<u>Casualty facultative excess of loss</u>	\$1,000,000 excess of \$1,000,000 ultimate net loss, each loss occurrence. Subject to an annual aggregate limit of \$2,000,000, inclusive of loss adjustment expense during the term of the contract for all acts of terrorism as covered by the contract.
<u>Inland flood quota share</u>	Shall not exceed \$25,000 net loss any one policy, any flood occurrence nor \$50,000 annual aggregate per policy.
<u>Equipment breakdown and service line coverage</u>	100% cession not exceeding \$5,000,000 any one risk without prior written agreement as respects commercial business. 100% cession not exceeding \$100,000 any one risk without prior written agreement as respects homeowners' business. 100% cession not exceeding \$10,000 any one risk without prior written agreement as respects underground utility line coverage.

All of the business was ceded to authorized reinsurers, and the cessions to authorized companies remained the same since the last examination.

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. Holding Company System

The Company is not a member of a holding company system.

E. Significant Ratios

The Company’s two-year overall operating ratio of 100%, computed as of December 31, 2021, falls outside the benchmark ranges set forth in the Insurance Regulatory Information System of the NAIC. The unusual value is due to a high loss ratio.

<u>Operating Ratios</u>	<u>Result</u>
Net premiums written to policyholders’ surplus	43%
Adjusted liabilities to liquid assets	37%
Two-year overall operating	100%

Underwriting Ratios

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

	<u>Amounts</u>	<u>Ratios</u>
Losses and loss adjustment expenses incurred	\$35,123,452	74.70%
Other underwriting expenses incurred	17,897,628	38.06%
Net underwriting gain (loss)	<u>(6,000,451)</u>	<u>(12.76)%</u>
Premiums earned	<u>\$47,020,629</u>	<u>100.00%</u>

The Company's reported risk-based capital ("RBC") score was 1,686.9% at December 31, 2021. 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, 2021, as reported by the Company:

<u>Assets</u>	<u>Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>
Bonds	\$36,742,539	\$ 0	\$36,742,539
Common stocks (stocks)	6,260,101	0	6,260,101
Properties occupied by the company	523,183	0	523,183
Cash, cash equivalents and short-term investments	1,197,023	0	1,197,023
Investment income due and accrued	373,248	0	373,248
Uncollected premiums and agents' balances in the course of collection	276,808	363	276,445
Deferred premiums, agents' balances and installments booked but deferred and not yet due	2,137,309	2,810	2,134,499
Amounts recoverable from reinsurers	26,014	0	26,014
Current federal and foreign income tax recoverable and interest thereon	356,144	0	356,144
Electronic data processing equipment and software	52,690	0	52,690
Furniture and equipment, including health care delivery assets	225,302	225,302	0
Cash surrender value of life insurance	<u>108,497</u>	<u>108,497</u>	<u>0</u>
Total assets	<u>\$48,278,858</u>	<u>\$336,972</u>	<u>\$47,941,886</u>

Liabilities, Surplus and Other FundsLiabilities

Losses and Loss Adjustment Expenses	\$ 8,003,714
Commissions payable, contingent commissions and other similar charges	1,122,211
Other expenses (excluding taxes, licenses and fees)	270,400
Net deferred tax liability	125,700
Unearned premiums	7,110,645
Advance premium	213,873
Ceded reinsurance premiums payable (net of ceding commissions)	76,926
Remittances and items not allocated	13,247
Deferred compensation payable	1,248,599
Private pension plan liability	<u>390,876</u>
 Total liabilities	 \$18,576,191

Surplus and Other Funds

Minimum required surplus	\$ 100,000
Unassigned funds (surplus)	<u>29,265,695</u>
 Surplus as regards policyholders	 <u>\$29,365,695</u>
 Total liabilities, surplus and other funds	 <u>\$47,941,886</u>

Note: The Internal Revenue Service did not audit the Company's Federal Income Tax returns during the period under examination. 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 \$476,975, as detailed below:

Underwriting Income

Premiums earned		\$47,020,629
Deductions:		
Losses and loss adjustment expenses incurred	\$35,123,452	
Other underwriting expenses incurred	<u>17,897,628</u>	
Total underwriting deductions		<u>53,021,080</u>
Net underwriting gain or (loss)		\$ (6,000,451)

Investment Income

Net investment income earned	\$ 3,684,983	
Net realized capital gain	<u>2,023,402</u>	
Net investment gain or (loss)		5,708,385

Other Income

Finance and service charges not included in premiums	\$ 435,031	
Loss on disposal of fixed assets	(2,562)	
Gain on disposal of fixed assets	12,353	
Miscellaneous income	<u>12,084</u>	
Total other income		<u>456,906</u>
Net income before dividends to policyholders and before federal and foreign income taxes		\$ 164,840
Dividends to policyholders		<u>0</u>
Net income after dividends to policyholders but before federal and foreign income taxes		\$ 164,840
Federal and foreign income taxes incurred		<u>(312,135)</u>
Net income		\$ <u>476,975</u>

C. Capital and Surplus

Surplus as regards policyholders increased \$1,244,514 during the four-year examination period January 1, 2018, through December 31, 2021, as reported by the Company, detailed as follows:

Surplus as regards policyholders as reported by the Company as of December 31, 2017			\$28,121,181
	<u>Gains in Surplus</u>	<u>Losses in Surplus</u>	
Net income	\$ 476,975		
Net unrealized capital gains or (losses)	439,610		
Change in net deferred income tax	93,500		
Change in nonadmitted assets		\$82,771	
Recovery of net operating loss	<u>317,200</u>	<u>0</u>	
Total gains and losses	\$1,327,285	\$82,771	
Net increase (decrease) in surplus			<u>1,244,514</u>
Surplus as regards policyholders as reported by the Company as of December 31, 2021			<u>\$29,365,695</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 \$8,003,714 is the same as reported by the Company as of December 31, 2021. The examination analysis of the loss and loss adjustment expense reserves was conducted in accordance with generally accepted actuarial standards of practice and statutory accounting principles, including SSAP No. 55.

The reserves were concentrated in the commercial multiple peril (86.9%) and homeowners'/farmowners' (12.9%) lines of business.

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

The prior report on examination contained no comments or recommendations.

6. **SUMMARY OF COMMENTS AND RECOMMENDATIONS**

This report contains no comments or recommendations.

Respectfully submitted,

_____/S/_____
Sheik H. Mohamed
Associate Insurance Examiner

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

Sheik H. Mohamed, being duly sworn, deposes and says that the foregoing report, subscribed by him, is true to the best of his knowledge and belief.

_____/S/_____
Sheik H. Mohamed

Subscribed and sworn to before me

this _____ day of _____, 2024.

APPOINTMENT NO. 32414

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:

Sheik Mohamed

as a proper person to examine the affairs of the

Midstate 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 18th day of May, 2022

*ADRIENNE A. HARRIS
Superintendent of Financial Services*

By:

Joan Riddell

*Joan Riddell
Deputy Bureau Chief*

