



**REPORT ON EXAMINATION
OF
CALLICOON CO-OPERATIVE INSURANCE COMPANY
AS OF DECEMBER 31, 2019**

**EXAMINER:
DATE OF REPORT:**

**KEVIN MCNAMEE
AUGUST 30, 2021**

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KATHY HOCHUL
Governor



ADRIENNE A. HARRIS
Superintendent

March 15, 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 32152 dated October 21, 2020, attached hereto, I have made an examination into the condition and affairs of Callicoon Co-operative 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 Callicoon Co-operative 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, 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

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

The Company was incorporated under the laws of the State of New York on June 29, 1910, as Callicoon Agricultural Fire Relief Association of Sullivan County for the purpose of transacting business as an assessment co-operative insurance association in Sullivan County. It commenced business on April 13, 1878. In 1964, the Company changed its name to Callicoon Co-operative 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 11 members. The board meets four times during each calendar year. At December 31, 2019, the board of directors was comprised of the following 11 members:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Roger E. Bisland Glen Spey, New York	Assistant Vice President, Callicoon Co-operative Insurance Company
David W. Bodenstein Jeffersonville, New York	Vice President, Callicoon Co-operative Insurance Company
Thomas R. Bose Youngsville, New York	Supervisor, Town of Callicoon
Philip E. Conaty Monticello, New York	Secretary and Treasurer, Callicoon Co-operative Insurance Company
George W. Ferguson Wallkill, New York	Retired
Douglas E. Loucks Livingston Manor, New York	Insurance Agent, Sole Proprietor, Douglas E. Loucks Insurance Agency
Brian P. Rourke Liberty, New York	Executive Vice President, Callicoon Co-operative Insurance Company
Jeanne L. Smith Livingston Manor, New York	Insurance Agent, Callicoon Co-operative Insurance Company
Edward T. Sykes Callicoon, New York	President, Callicoon Co-operative Insurance Company
Steven A. Thornton Saugerties, New York	Retired
Lee Clark Titus Wallkill, New York	Retired

A review of the Company's fidelity bond coverage noted a policy providing fidelity coverage up to the aggregate limit of \$200,000. NAIC Guidelines recommended fidelity bond coverage of \$225,000 to \$250,000.

It is recommended that the Company maintain fidelity bond coverage in the amounts prescribed by the NAIC.

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

<u>Name</u>	<u>Title</u>
Edward Thomas Sykes	President
Philip Edward Conaty	Secretary and Treasurer

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

<u>Calendar Year</u>	<u>Direct Premiums</u>
2015	6,277,494
2016	6,405,812
2017	6,404,473
2018	6,356,656
2019	6,353,059

The Company writes predominantly commercial multiple peril, homeowners' multiple peril, and fire insurance, which accounted for 40.1%, 35.2%, and 13.2%, respectively, of its 2019 direct premiums written. The Company writes direct business through approximately 25 independent agents.

C. Reinsurance Ceded

The Company has structured its ceded reinsurance program to limit its maximum exposures on any one risk as follows:

<u>Type of contract</u>	<u>Cession</u>
<u>Property Excess of Loss</u> (3 Layers)	\$1,850,000 in excess of \$150,000 ultimate net loss on each and every risk, each and every loss occurrence. The reinsurer's combined liability, of the three layers, shall not exceed \$4,050,000 ultimate net loss for any one loss occurrence.
<u>Casualty Excess of Loss</u> (3 Layers)	\$1,900,000 in excess of \$100,000 ultimate net loss on each loss occurrence.
<u>Property Catastrophe Excess of Loss</u>	100% ultimate net loss in excess of \$300,000, each and every loss occurrence, involving two or more risks.
<u>Equipment Breakdown Quota Share</u>	100% of the Company's net retained liability; cessions limited to \$5,000,000 on any one risk.

All of the Company's reinsurance is with authorized reinsurers.

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 SSAP No. 62R. Representations were supported by appropriate risk transfer analyses and an attestation from the Company's President and Secretary/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

As of December 31, 2019, the Company was not a member of any holding company system.

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	17%
Adjusted liabilities to liquid assets	13%
Two-year overall operating	65%

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	\$10,504,390	41.20%
Other underwriting expenses incurred	9,877,543	38.74%
Net underwriting gain (loss)	<u>5,115,730</u>	<u>20.06%</u>
Premiums earned	<u>\$25,497,663</u>	<u>100.00%</u>

The Company's reported risk-based capital ("RBC") score was 6,476.3% at December 31, 2019. 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, 2019, as reported by the Company:

<u>Assets</u>	<u>Net Admitted Assets</u>
Bonds	\$30,042,795
Common stocks (stocks)	1,777,457
Properties occupied by the company	572,070
Cash, cash equivalents and short-term investments	1,230,770
Investment income due and accrued	249,623
Uncollected premiums and agents' balances in the course of collection	278,830
Deferred premiums, agents' balances and installments booked but Deferred and not yet due	953,603
Amounts recoverable from reinsurers	104,355
Rounding adjustment	<u>(1)</u>
Total assets	<u>\$35,209,502</u>
 <u>Liabilities, surplus and other funds</u>	
<u>Liabilities</u>	
Losses and loss adjustment expenses	\$1,624,043
Commissions payable, contingent commissions and other similar charges	184,865
Unearned premiums	<u>3,363,737</u>
Total liabilities	\$5,172,645
 <u>Surplus and other funds</u>	
Special fund for multi-peril lines	\$ 100,000
Unassigned funds (surplus)	<u>29,936,857</u>
Surplus as regards policyholders	<u>\$30,036,857</u>
Total liabilities, surplus and other funds	<u>\$35,209,502</u>

Note: The Internal Revenue Service has not audited tax returns covering tax years 2014 and 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 \$7,173,136, as detailed below:

Underwriting Income

Premiums earned		\$25,497,663
Deductions:		
Losses and loss adjustment expenses incurred	\$10,504,390	
Other underwriting expenses incurred	<u>9,877,543</u>	
Total underwriting deductions		<u>20,381,933</u>
Net underwriting gain or (loss)		\$ 5,115,730

Investment Income

Net investment income earned	\$ 3,607,804	
Net realized capital gain	<u>(129,288)</u>	
Net investment gain or (loss)		\$ 3,478,516

Other Income

Finance and service charges not included in premiums	\$ 211,991	
Rounding adjustment	<u>(1)</u>	
Total other income		\$ <u>211,990</u>
Net income before federal and foreign income taxes		\$ 8,806,236
Federal and foreign income taxes incurred		<u>1,633,100</u>
Net income		\$ <u>7,173,136</u>

C. Capital and Surplus

Surplus as regards policyholders increased by \$7,630,025 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			\$22,406,832
	<u>Gains in Surplus</u>	<u>Losses in Surplus</u>	
Net income	\$7,173,136		
Net unrealized capital gains	236,349		
Real estate adjustment	<u>220,540</u>	<u>0</u>	
Total gains and losses	\$7,630,025	\$0	
Net increase (decrease) in surplus			<u>7,630,025</u>
Surplus as regards policyholders as reported by the Company as of December 31, 2019			<u>\$30,036,857</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 \$1,624,043 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 no comments or recommendations.

7. SUMMARY OF COMMENTS AND RECOMMENDATIONS

<u>ITEM</u>	<u>PAGE NO.</u>
A. <u>Management</u>	
i. It is recommended that the Company maintain fidelity bond coverage in the amounts prescribed by the NAIC.	4

Respectfully submitted,

_____/S/_____
Kevin McNamee
Associate Insurance Examiner

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

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

_____/S/_____
Kevin McNamee

Subscribed and sworn to before me

this _____ day of _____, 2024.

APPOINTMENT NO. 32152

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:

Kevin McNamee

as a proper person to examine the affairs of the

Callicoon Co-operative 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 21st day of October, 2020

*LINDA A. LACEWELL
Superintendent of Financial Services*

By:

Joan Riddell

*Joan Riddell
Deputy Bureau Chief*

