REPORT ON EXAMINATION
OF
LEATHERSTOCKING COOPERATIVE INSURANCE COMPANY

AS OF DECEMBER 31, 2020

EXAMINER:	**SHEIK MOHAMED**
DATE OF REPORT:	**MARCH 25, 2022**

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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 32248 dated May 6, 2021, attached hereto, I have made an examination into the condition and affairs of Leatherstocking Cooperative 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 Leatherstocking Cooperative 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, 2016. This examination covered the four-year period from January 1, 2017, 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 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

Leatherstocking Cooperative Insurance Company was incorporated under the laws of the State of New York on June 27, 1887, as Otsego County Farmers' Co-operative Fire Insurance Company and commenced business on the same date. The current name was adopted on October 1, 1990.

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

Name and Residence	Principal Business Affiliation
Wayne Douglas Benjamin Morris, New York	Retired
Jeffery Tristram Coffin Maryland, New York	Consultant
Mary Jane Elizabeth Conroe Morris, New York	Vice President, Leatherstocking Cooperative Insurance Company
Peter Lewis Craig Hartwick, New York	Retired
Margaret Short Davis Oneonta, New York	Retired
Adam Ibrahim Binghamton, New York	Real Estate Investor, Fortress Development Group
Katie L. LaValla Little Falls, New York	Franchisee, H&R Block
Philip Addison Lewis Cooperstown, New York	President, Leatherstocking Cooperative Insurance Company
Carol Bill Moylan Cherry Valley, New York	Independent Certified Public Accountant
Kim Kucharski Muller Oneonta, New York	Self-employed, KKM Associates LLC.

Name and Residence	Principal Business Affiliation
Lynn John Woodard South New Berlin, New York	Retired

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

Name	Title
Philip Addison Lewis	President
Amy Lynn Lyon	Treasurer and Secretary
Mary Jane Elizabeth Conroe	Vice President

B. Territory and Plan of Operation

As of December 31, 2020, the Company was licensed to write business in all counties of New York State 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:

Paragraph	Line of Business
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)

In accordance with Section 6606 of the New York Insurance Law, the Company may also accept and cede reinsurance of the kind or kinds of insurance it is licensed to do directly.

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

Calendar Year	Direct Premiums	Assumed Premiums	Total Gross Premiums
2017	$20,552,979	$ 0	$20,552,979
2018	$22,918,916	$23,684	$22,942,600
2019	$25,486,473	$52,540	$25,539,013
2020	$27,982,216	$51,925	$28,034,141

The major lines of business written by the Company are commercial multi-peril, homeowners' multi-peril and fire which accounted for approximately 45.5%, 31.3%, and 21.8%, respectively, of the 2020 direct written premiums. The Company writes business exclusively through approximately 235 independent agents located throughout upstate New York.

C. Reinsurance Ceded

The Company places reinsurance with reinsurers that hold an A.M. Best financial strength rating of A- or higher. The Company considers its risk appetite and tolerance when determining the reinsurance program.

The Company has structured its ceded reinsurance program as follows:

Type of Coverage	Cession
Property Excess of Loss 1 layer	$700,000 excess of $300,000 ultimate net loss, each loss, each risk, subject to a limit of liability of $1,400,000 each loss occurrence.
Property Catastrophe Excess of Loss 2 layers	100% of the ultimate net loss in excess of $550,000 each loss occurrence, for loss occurrences involving three or more risks.
Property Inland Flood 100% Quota Share	100% quota share; reinsurer's liability not to exceed $50,000 net loss any one policy, any one flood occurrence, nor $100,000 annual aggregate per policy. The reinsurer shall also be liable for its quota share percentage of extra-

	contractual obligations and excess judgments not to exceed $150,000, as defined in the extra-contractual obligations and excess judgments article. The reinsurer shall be liable for its quota share percentage of declaratory judgment expenses not to exceed $150,000, as defined in the declaratory judgment expenses article.
Casualty Excess of Loss 1 layer	$850,000 excess of $150,000 ultimate net loss, each loss occurrence.
Casualty and Property Combined 1 layer	In the event of a loss occurrence involving one or more property policy and one or more casualty policy: $150,000 excess of $300,000 each loss occurrence.
Casualty Clash Excess of Loss	$1,000,000 excess of $1,000,000 ultimate net loss, each loss occurrence. With respect to workers compensation required by subsection (j) of Section 3420 of New York Insurance Laws, no claim shall be made unless the Company shall have first sustained an ultimate net loss in excess of $2,000,000. The reinsurer shall then reimburse the Company for the whole of such excess.
Equipment Breakdown 100% Quota Share	100% of the Company's net retained liability subject to a limit of $5,000,000 on any one risk.

Facultative property coverage is maintained whereby maximum cession is limited to $1,000,000 on any one risk, subject to a minimum net retention of $200,000.

Facultative casualty coverage is also maintained in excess of $1,000,000 each loss occurrence, each policy, subject to a limit of liability of $1,000,000 each loss occurrence, each policy.

Since the previous examination, the Company's retention has increased from $175,000 to $300,000 on property business and from $100,000 to $150,000 on casualty business. All reinsurance was ceded to authorized/accredited 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 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 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. Significant Ratios

The following operating ratios were computed as of December 31, 2020:

Operating Ratios	Result
Net premiums written to policyholders' surplus	95%
Adjusted liabilities to liquid assets	52%
Two-year overall operating	82%
Stock turnover	390%
Investment yield	0.5%
Change in adjusted policyholders' surplus	(14)%

The stock turnover, investment yield, and change in adjusted policyholders' surplus ratios fall outside the benchmark ranges set forth in the Insurance Regulatory Information System of the NAIC. The stock turnover ratio is above the benchmark of 50%; the investment yield is below the benchmark range of 2% to 5.5%; and the change in adjusted policyholders' surplus is below the benchmark range of (10)% to 25%. The other operating ratios fall within the benchmark ranges.

In early 2020, the Company held a large percentage of its invested assets in common stocks. During 2020, the Company reduced its holdings in common stocks by more than 96% and reported a net realized capital loss of $5,579,705 in its filed annual statement as of December 31, 2020. The realized capital loss included a loss of $7,442,114 on common stocks purchased on March 2 and 3, 2020 and sold on March 18, 2020. The realized capital losses caused the three operating ratios noted above to fall outside of the benchmark ranges.

In an email dated April 5, 2021, responding to a question from the Department's analyst regarding the negative financial impact of the Company's investment transactions in 2020, the Company's President stated that the Company had submitted a proposal for a derivative use plan which was never accepted nor rejected by the Department and added that "unfortunately, Leatherstocking had positioned our portfolio to place a zero-cost hedged collar around our invested assets to eliminate risk and portfolio volatility. As no approval was given, and therefore no derivatives utilized, our portfolio was in a vulnerable position when the market went down a year ago. As prudent managers of the portfolio we were forced to liquidate most of the assets to protect the Company's financial position."

It is noted that the Company submitted its proposed derivative use plan ("DUP") to the Department on March 16, 2020, two days before it sold the block of common stocks that resulted in the realized loss of $7,442,114. The proposed DUP was submitted to the Department pursuant to the provisions of Section 1410(b)(3)(B) and (D) of the New York Insurance Law which states, in part:

> "(B) the insurer shall submit a written derivative use plan or amendment thereto to the superintendent for approval; and . . .
>
> (D)(i) . . . within ninety days of receipt of a derivative use plan application, the superintendent shall, in writing, approve, submit a detailed list to the insurer requesting all additional information necessary to make a determination on the plan, or deny such plan . . ."

The Department found the proposed DUP to be inadequate and responded on March 18, 2020, requesting additional information. The Company subsequently submitted five revised DUP's between March 24, 2020 and October 6, 2020, however, none of the revised DUP's provided by the Company were deemed to be acceptable and therefore, the DUP was never approved.

It is recommended that the Company institute controls to ensure prudent management of its investments, and not take actions to place its portfolio in a vulnerable position without appropriate protections in place.

Underwriting Ratios

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

	Amount	Ratio
Losses and loss adjustment expenses incurred	$43,867,351	52.50%
Other underwriting expenses incurred	25,766,250	30.84%
Net underwriting gain	13,927,756	16.67%
Premiums earned	$83,561,357	100.00%

The Company's reported risk-based capital ("RBC") score was 1,733% 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:

Assets	Assets	Assets Not Admitted	Net Admitted Assets
Bonds	$ 7,582,531	$ 0	$ 7,582,531
Common stocks	1,393,763	0	1,393,763
Properties occupied by the Company	540,368	0	540,368
Cash, cash equivalents and short-term investments	40,808,708	0	40,808,708
Investment income due and accrued	71,114	0	71,114
Uncollected premiums and agents' balances in the course of collection	1,002,289	37,190	965,099
Deferred premiums, agents' balances and installments booked but deferred and not yet due	4,837,762	0	4,837,762
Amounts recoverable from reinsurers	130,251	0	130,251
Current federal and foreign income tax recoverable and interest thereon	690,534	0	690,534
Net deferred tax asset	2,055,223	1,329,107	726,116
Electronic data processing equipment and software	9,943	0	9,943
Furniture and equipment, including health care delivery assets	96,949	96,949	0
Deposits in Pools	7,622	0	7,622
Total assets	$59,227,057	$1,463,246	$57,763,811

Liabilities, Surplus and Other Funds

Liabilities

Losses and Loss adjustment expenses		$14,245,015
Commissions payable, contingent commissions and other similar charges		1,388,710
Other expenses (excluding taxes, licenses and fees)		224,161
Borrowed money and interest thereon		247,900
Unearned premiums		14,426,680
Advance premium		335,219
Ceded reinsurance premiums payable (net of ceding commissions)		19,884
Amounts withheld or retained by company for account of others		58,609
Total liabilities		$30,946,178

Surplus and other funds

Unassigned funds (surplus)	$26,817,633	
Surplus as regards policyholders		26,817,633
Total liabilities, surplus and other funds		$57,763,811

Note: The Internal Revenue Service has not audited the Company's federal income tax returns covering tax year 2017 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 $8,668,798, as detailed below:

Underwriting Income		
Premiums earned		$83,561,357
Deductions:		
Losses and loss adjustment expenses incurred	$43,867,351	
Other underwriting expenses incurred	25,766,250	
Total underwriting deductions		69,633,601
Net underwriting gain		$13,927,756
Investment Income		
Net investment income earned	$3,073,294	
Net realized capital gain	(4,020,702)	
Net investment gain or (loss)		(947,408)
Other Income		
Net gain or (loss) from agents' or premium balances charged off	$(131,171)	
Finance and service charges not included in premiums	49,679	
Miscellaneous income	3,025	
Total other income		(78,467)
Net income before dividends to policyholders and before federal and foreign income taxes		$12,901,881
Dividends to policyholders		0
Net income after dividends to policyholders but before federal and foreign income taxes		$12,901,881
Federal and foreign income taxes incurred		4,233,083
Net income		$ 8,668,798

C. Capital and Surplus

Surplus as regards policyholders increased $7,236,630 during the four-year examination period January 1, 2017 through December 31, 2020, as reported by the Company, detailed as follows:

	Gains in Surplus	Losses in Surplus	
Surplus as regards policyholders as reported by the Company as of December 31, 2016			$19,581,003
Net income	$ 8,668,798		
Net unrealized capital gains or (losses)		$1,587,637	
Change in net deferred income tax	1,571,507		
Change in nonadmitted assets	0	1,416,038	
Total gains and losses	$10,240,305	$3,003,675	
Net increase (decrease) in surplus			7,236,630
Surplus as regards policyholders as reported by the Company as of December 31, 2020			$26,817,633

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 $14,245,015 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.

5. SUBSEQUENT EVENTS

Subsequent to the examination date, on April 14, 2021, the Company submitted to the Department a proposed Management Services Agreement with Legacy Operating Partners, LLC ("Legacy"), whereby Legacy would provide management services to the Company. Philip Addison Lewis, the President of the Company, was one of five owners of Legacy, and the Company and Legacy share common officers.

The Department expressed concerns about the agreement and asked the Company to address these concerns. The Department never received adequate responses to its questions and advised the Company verbally on July 27, 2021, that the Management Services Agreement ("Agreement") was disapproved but noted that if the Company wanted to submit additional information that would address the outstanding issues, they could do so. There were ongoing discussions between the Company and the Department; however, the outstanding issues were never resolved to the Department's satisfaction, and the Department issued a disapproval letter to the Company dated December 23, 2021.

Upon receipt of the disapproval letter, the Company's Board Chair contacted the Department to inquire about how to proceed to get the Agreement approved. The Board Chair also indicated that the parties to the Agreement had executed it with an effective date of January 1, 2022, believing that they had provided the information to address the Department's concerns and questions, and had not received a letter of disapproval. It is noted that the Board Chair had acknowledged unanswered questions in an email prior to executing the Agreement.

It is recommended that the Company institute procedures to ensure that agreements with affiliated entities receive approval from the Department prior to implementation. It is noted that the Company terminated the management agreement upon the Department's formal notification of disapproval.

6. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

The prior report on examination contained five recommendations as follows (page numbers refer to the prior report):

ITEM		PAGE NO.
A.	Accounts and Records	
i.	It was recommended that the Company obtain adequate fidelity bond coverage commensurate with its exposure.	8
	The Company has complied with this recommendation.	
ii.	It was recommended that the Company require its officers, directors, or key employees to complete and sign, on an annual basis, a conflict-of-interest statement, wherein the signer would disclose any potential conflicts of interest, and that the Company retain such signed statements in its files.	8
	The Company has complied with this recommendation.	
iii.	It was recommended that the Company comply with the NAIC requirements as stated in Section 1 – Part (3)(F) of the NAIC Financial Condition Examiners Handbook and include the NAIC required provisions in the Company's custodian agreement(s).	9
	The Company has complied with this recommendation.	
iv.	It was recommended that the Company perform a reconciliation of loss data from the underlying actuarial reports to the general ledger and or the Schedule P.	9
	The Company has complied with this recommendation.	
v.	It was recommended that the Company maintain records in compliance with the record retention standards prescribed in New York State Regulation 152.	9
	The Company has complied with this recommendation.	

7. SUMMARY OF COMMENTS AND RECOMMENDATIONS

ITEM		PAGE NO.
A.	Investment Management	
	It is recommended that the Company institute controls to ensure prudent management of its investments, and not take actions to place its portfolio in a vulnerable position without appropriate protections in place.	14
B.	Management Services Agreement	
	It is recommended that the Company institute procedures to ensure that agreements with affiliated entities receive approval from the Department prior to implementation.	14

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. 32248

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:*

Sheik Mohamed

as a proper person to examine the affairs of the

Leatherstocking Cooperative 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 6th day of May, 2021

LINDA A. LACEWELL
Superintendent of Financial Services

By:

Joan Riddell

Joan Riddell
Deputy Bureau Chief