REPORT ON EXAMINATION
OF
MERCHANTS PREFERRED INSURANCE COMPANY

AS OF DECEMBER 31, 2023

EXAMINER: LEE R. PROWELL
DATE OF REPORT: JUNE 13, 2025

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June 13, 2025

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 32599 dated February 21, 2024, attached hereto, I have made an examination into the condition and affairs of Merchants Preferred Insurance Company as of December 31, 2023, and submit the following report thereon.

Wherever the designation "the Company" appears herein without qualification, it should be understood to indicate Merchants Preferred 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 Merchants Preferred Insurance Company ("MPIC"), a multi-state insurer. The previous examination was conducted as of December 31, 2018. This examination covered the five-year period from January 1, 2019, through December 31, 2023. Transactions occurring subsequent to this period were reviewed where deemed appropriate by the examiner.

New York is the lead state of the Merchants Mutual Group (the "Group"). The examination was performed concurrently with the examinations of the following insurers: Merchants Mutual Insurance Company ("MMIC"), a New York domiciled company, and Merchants National Insurance Company ("MNIC") a New Hampshire domiciled company. New Hampshire participated in this examination.

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
Affiliated group description
Financial statement presentation
Loss review and analysis
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

Merchants Preferred Insurance Company was incorporated under the laws of the State of New York on September 29, 2006. It became licensed on February 26, 2007 and commenced business on the same date.

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 15 members. The board meets at least four times during each calendar year. At December 31, 2023, the board of directors was comprised of the following 12 members:

Name and Residence	Principal Business Affiliation
John Melville Foehl, Jr. Summerville, South Carolina	Insurance Consultant
Muriel Atkinson Howard, PhD Upper Marlboro, Maryland	Retired
Brian Jeffrey Lipke Derby, New York	Retired
Charles Edward Makey, III Orchard Park, New York	President and Chief Executive Officer, Merchants Mutual Insurance Company
Nora Kathleen McGuire Tonawanda, New York	Healthcare Executive Consultant
Jeffrey Scott Meyer Buffalo, New York	President, Baillie Lumber
Thomas Alan Meyers Newtown, Pennsylvania	Retired
Michael Joseph Murray Hamburg, New York	Retired
David Elihu Ourlicht New York, New York	Managing Director and Special Adviser to the Chair, GAMCO Asset Management

Name and Residence	Principal Business Affiliation
Edward Galbraith Wright Hamburg, New York	President and Chief Executive Officer, W.J. Cox Associates, Inc.
Robert Michael Zak Buffalo, New York	Retired
Ronald Keith Zoeller Orchard Park, New York	Chief Executive Officer, Azeros Healthcare, LLC

As of December 31, 2023, the principal officers of the Company were as follows:

Name	Title
Charles Edward Makey, III	President and Chief Executive Officer
Christine Carol Schmitt	Secretary and Treasurer
Daniel John Bierbrauer Jr.[1]	Senior Vice President, Regional Operations
Scott Alan Behrent	Vice President, National Distribution
Patrick Wayne Carr[2]	Vice President, Finance/Controller
Kenneth Patrick Carter[3]	Vice President, Claims Operations
Stephen Vernon Cross	Vice President, Chief Information Officer
Kelly Aileen Julius	Vice President, Human Resources
Joseph James Meyer[4]	Senior Vice President, Underwriting, Product Management and Corporate Programs
Benjamin Andrew Walden[5]	Vice President, Chief Actuary

[1] Daniel John Bierbrauer Jr., Senior Vice President, Regional Operations retired effective December 31, 2024 and was replaced by Michael Wolfe .

[2] Patrick Wayne Carr, Vice President, Finance/Controller resigned effective February 2, 2024, and this position was filled internally by Marc McKenica effective March 29, 2024.

[3] Kenneth Patrick Carter, Vice President, Claims Operations retired September 13, 2024, and this position was filled internally by Joanne Hobbs effective December 10, 2024.

[4] Joseph James Meyer, Senior Vice President of Underwriting, Product Management and Corporate Programs was terminated effective April 14, 2025. The role is split into two positions: Vice President of Product Development and Corporate Programs, which is filled by Doug Zeyak, effective June 9, 2025, and Vice President of Underwriting, which is not yet filled.

[5] Benjamin Walden, Vice President and Chief Actuary resigned effective December 6, 2024. The position will be filled by Lori Moore, effective June 23, 2025.

B. Territory and Plan of Operation

As of December 31, 2023**,** the Company was licensed to write business in 13 states.

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
3	Accident and health
4	Fire
5	Miscellaneous property
6	Water damage
7	Burglary and theft
8	Glass
9	Boiler and machinery
10	Elevator
11	Animal
12	Collision
13	Personal injury liability
14	Property damage liability
15	Workers' compensation and employers' liability
16	Fidelity and surety
17	Credit
19	Motor vehicle and aircraft physical damage
20	Marine and inland marine
21	Marine protection and indemnity
26(A)(B)(C)(D)	Gap

The Company is also empowered to transact such workers' compensation insurance as may be incidental to coverage contemplated under paragraphs 20 and 21 of Section 1113(a) of the New York Insurance Law, including insurances described in the Longshoremen's and Harbor Workers' Compensation Act (Public Law No. 803, 69th Congress as amended; 33 USC Section 901 et. seq. as amended).

Based upon the lines of business for which the Company is licensed and pursuant to the requirements of Articles 13 and 41 of the New York Insurance Law, the Company is required to maintain a minimum surplus to policyholders in the amount of $6,400,000.

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
2019	$ 84,029,321	$27,767,105	$111,796,426
2020	$ 96,768,976	$28,731,722	$125,500,698
2021	$116,026,326	$32,551,344	$148,577,670
2022	$137,520,111	$34,912,027	$172,432,138
2023	$148,701,859	$36,478,364	$185,180,223

In 2023, the Company's predominant lines of business, based on direct written premiums, are commercial multiple peril (liability portion) (39%), other commercial auto liability (21%), homeowners' multiple peril (9%), commercial multiple peril (non-liability portion) (7%), and private passenger auto physical damage (7%). Additionally, in 2023, the Company's direct written premiums mainly derived from New York (76%), followed by New Jersey (10%).

Approximately 98% of the Company's assumed business was derived from its participation in an intercompany pooling agreement, further described in section 2C of this report. The remaining 2% of assumed premiums is due to the Company's participation in various state-mandated risk pools.

The Company's products are sold through approximately 750 independent insurance agents operating out of 1,100 locations across eight states.

Due to the intercompany pooling and reinsurance agreements, described further herein, the net exposure of the Company is significantly different than its direct and assumed exposure.

C. Reinsurance Ceded

Intercompany Pooling Agreement

Effective July 1, 2007, the Company entered into an Amended and Restated Pooling Agreement with MMIC and MNIC ("Merchants Pooling Agreement"), whereby MMIC assumes from the Company and MNIC all the premiums, losses and underwriting expenses on their business and then cedes to the Company and MNIC a percentage of the pooled business. The pooling percentages for MMIC, MNIC and the Company are 70%, 20% and 10%, respectively.

The Group has structured its ceded reinsurance program as follows:

Treaty type	Cession
Property Per Risk Excess of Loss (2 layers)	$6,500,000 in excess of $500,000 each loss, each risk, limited to $6,500,000 with respect all losses arising out of any one loss occurrence.
Property Catastrophe Excess of Loss (4 layers)	$95,000,000 in excess of $10,000,000 any one loss occurrence.
Casualty Excess of Loss Section A (4 layers)	$9,250,000 in excess of $750,000, with 47.5% retention of the loss between $750,000 and $1,000,000 not to exceed $9,131,250 for each occurrence.
Section B – Combined Property and Casualty	$500,000 in excess of $750,000 of ultimate net loss of the combined occurrence.
Workers Compensation Catastrophe Excess of Loss	$15,000,000 in excess of $10,000,000 ultimate net loss, any one loss occurrence, limited to $15,000,000 with respect to any one loss occurrence.
Umbrella Quota Share	75% placed limited to $1,000,000 of coverage and 100% of all amounts in excess of $1,000,000, not to exceed $10,000,000 each loss occurrence, each policy until September 30, 2023. 90% placed limited to $5,000,000 each loss occurrence, each policy, beginning October 1, 2023.
Programs (Non-admitted) Casualty Quota Share 75% Placed	100% of the net liability, limited to $2,000,000 each policy, each occurrence or claim made, contractor's general liability or products and completed operations, $4,000,000 aggregate each policy, contractor's general liability, and $4,000,000 aggregate each policy, products and completed operations.
Programs Umbrella and Excess Liability Quota Share and Excess of Loss: Section A Quota Share 85% Placed	Limited to $1,000,000 each loss occurrence, each policy
Section B – Excess of Loss	$9,000,000 in excess of $1,000,000 each loss occurrence, each policy.

In addition to its treaty reinsurance program, the Company also obtained facultative reinsurance coverage, in addition to its basic coverage for property losses. The facultative treaty will provide property coverage of $8 million excess of the Company's $7 million retention each risk.

A majority of the ceded premium was to authorized reinsurers.

It is the Company's policy to obtain the appropriate collateral for its cessions to unauthorized 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 appropriate risk transfer analyses and 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. Affiliated Group

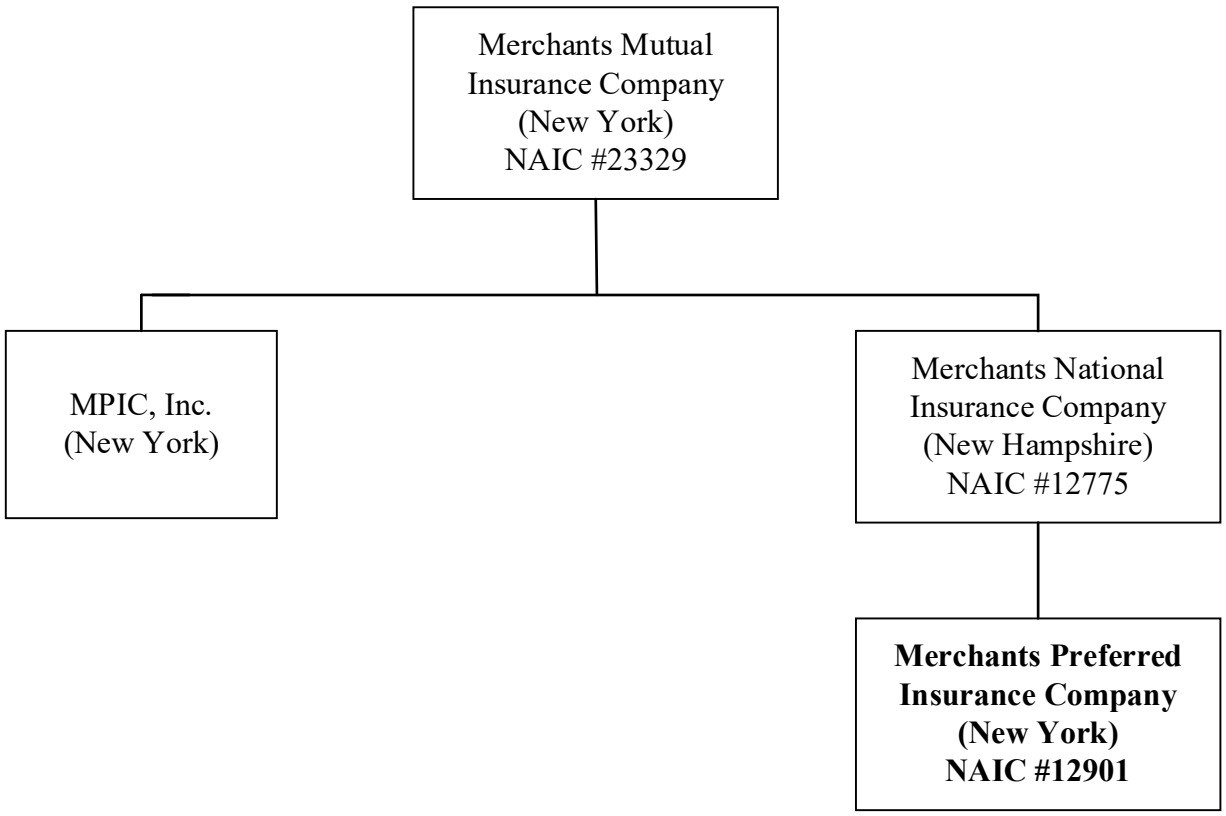
The Company is a member of the Merchants Mutual Group. The Company is a wholly owned subsidiary of MNIC, a New Hampshire property and casualty insurance company. MNIC is wholly owned by MMIC. MMIC also owns MPIC, Inc., a general-purpose New York State business corporation whose primary asset is the office building that is leased to MMIC. The Company commenced operations in 2007 and underwrites the Group's preferred-risk business.

The Group offers property and casualty insurance to individuals and to small to medium-sized businesses throughout the Northeast, Mid-Atlantic and North Central United States. The Group also writes monoline umbrella, excess liability and contractor's liability insurance in the non-admitted market. Within

the Group, the Company directly writes approximately 93% of the personal lines business and 33 % of the commercial lines business.

The Company's ultimate parent is a mutual insurer; therefore, the Company is not subject to the provisions of Article 15 of the New York Insurance Law. However, pursuant to the provisions of Circular Letter No. 10 (2010), the Company is required to submit to this Department, within 120 days following the close of the ultimate parent company's fiscal year, a copy of the NAIC insurance holding company system annual registration statement. The Company made the required filings on a timely basis during the period covered by this examination.

The following is an unabridged chart of the Company and its affiliated entities at December 31, 2023:



At December 31, 2023, the Company was party to the following agreements with other members of its affiliated group:

Management Agreement

Effective October 1, 2011, the Company entered into a Second Amended and Restated Management Agreement with MMIC and MNIC. Pursuant to the terms of the agreement, the MMIC agrees to provide the Company and MNIC with facilities, management, and personnel required to operate their business. The Company and MNIC have no employees. The Company and MNIC reimburse MMIC for expenses incurred on their behalf on a cost allocation basis.

Amounts due shall be determined on a year-to-date basis at the end of each month and payment shall be made within 30 days after the end of the month.

Tax Sharing Agreement

Effective January 1, 2007, the Company entered into an Amended and Restated Tax Sharing Agreement with its affiliates. The parties file a consolidated federal income tax return. The agreement provides that the Company's tax liability on a consolidated basis will not exceed the liability had it filed its tax return on a stand-alone basis. This agreement was submitted to the Department pursuant to the provisions of Department Circular Letter No. 33 (1979).

E. Significant Ratios

The following operating ratios, computed as of December 31, 2023, fall within the benchmark ranges set forth in the Insurance Regulatory Information System of the NAIC.

Operating Ratios	Result
Net premiums written to policyholders' surplus	110%
Adjusted liabilities to liquid assets	73%

The two-year overall operating ratio of 111% falls outside the benchmark range due to the increase in loss and loss adjustment expenses (refer to sections 3D and 4 of this report).

Underwriting Ratios

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

	Amount	Ratio
Losses and loss adjustment expenses incurred	$114,276,072	75.81%
Other underwriting expenses incurred	47,469,277	31.49%
Net underwriting gain (loss)	(11,010,722)	(7.30)%
Premiums earned	$150,734,627	100.00%

The Company's reported risk-based capital ("RBC") score was 790.8% at December 31, 2023. 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 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, 2023, as reported by the Company:

Assets	Assets	Assets Not Admitted	Net Admitted Assets
Bonds	$ 91,312,115	$ 0	$ 91,312,115
Preferred stocks	1,111,554	0	1,111,554
Common stocks	9,884,729	0	9,884,729
Cash, cash equivalents and short-term investments	3,747,580	0	3,747,580
Investment income due and accrued	635,724	0	635,724
Uncollected premiums and agents' balances in the course of collection	2,096,816	258,794	1,838,022
Deferred premiums, agents' balances and installments booked but deferred and not yet due	11,585,184	0	11,585,184
Amounts recoverable from reinsurers	198,380	0	198,380
Net deferred tax asset	1,569,000	266,000	1,303,000
Receivables from parent, subsidiaries and affiliates	58,944	0	58,944
Prepaid expenses	247,129	247,129	0
Equities and deposits in pools and associations	395,368	0	395,368
Total assets	$122,842,523	$771,923	$122,070,600

Liabilities, Surplus and Other Funds

Liabilities

Losses and loss adjustment expenses		$50,531,197
Commissions payable, contingent commissions and other similar charges		4,949,497
Other expenses (excluding taxes, licenses and fees)		1,381,517
Taxes, licenses and fees (excluding federal and foreign income taxes)		1,055,790
Current federal and foreign income taxes		16,000
Unearned premiums		17,990,478
Advance premium		152,472
Ceded reinsurance premiums payable (net of ceding commissions)		2,005,732
Funds held by company under reinsurance treaties		19,996
Amounts withheld or retained by company for account of others		182,096
Total liabilities		$78,284,775

Surplus and Other Funds

Common capital stock	$ 4,200,000	
Gross paid in and contributed surplus	20,800,000	
Unassigned funds (surplus)	18,785,825	
Surplus as regards policyholders		43,785,825
Total liabilities, surplus and other funds		$122,070,600

Note: The Internal Revenue Service has not audited tax returns covering tax years 2019 through 2023. 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 $10,867,664 as detailed below:

Underwriting Income		
Premiums earned		$150,734,627
Deductions:		
Losses and loss adjustment expenses incurred	$102,983,072	
Other underwriting expenses incurred	47,244,845	
Assignment credit fee expense	224,432	
Total underwriting deductions		150,452,349
Net underwriting gain or (loss)		$ 282,278
Investment Income		
Net investment income earned	$ 11,955,419	
Net realized capital gain	761,334	
Net investment gain or (loss)		12,716,753
Other Income		
Net gain or (loss) from agents' or premium balances charged off	$ (487,078)	
Finance and service charges not included in premiums	752,047	
Miscellaneous income	63,339	
Total other income		328,308
Net income before dividends to policyholders and before federal and foreign income taxes		$ 13,327,339
Dividends to policyholders		49,894
Net income after dividends to policyholders but before federal and foreign income taxes		$ 13,277,445
Federal and foreign income taxes incurred		2,409,781
Net income		$ 10,867,664

C. Capital and Surplus

Capital paid in is $4,200,000, consisting of 100,000 shares of $42 par value per share common stock. Gross paid in and contributed surplus is $20,800,000. Capital paid in and gross paid in and contributed surplus did not change during the examination period.

Surplus as regards policyholders increased $10,964,659 during the five-year examination period January 1, 2019 through December 31, 2023, as reported by the Company, detailed as follows:

Surplus as regards policyholders, as reported by the Company as of December 31, 2018			$32,821,166
	Gains in Surplus	Losses in Surplus	
Net income	$10,867,664		
Net unrealized capital gains or (losses)	301,454		
Change in net deferred income tax	136,000		
Change in non-admitted assets	0	$340,459	
Total gains and losses	$11,305,118	$340,459	
Net increase in surplus			10,964,659
Surplus as regards policyholders, as reported by the Company as of December 31, 2023			$43,785,825

A change to surplus was made as a result of this examination, as noted in section 3D of this report.

D. Analysis of Changes to Surplus

Surplus as regards policyholders as reported by the Company as of December 31, 2023	$43,785,825
Change to surplus due to examination change in loss and loss adjustment expenses at December 31, 2023 (refer to section 4 of this report for further detail)	(11,293,000)
Surplus as regards policyholders as of December 31, 2023, per examination	$32,492,825

4. LOSSES AND LOSS ADJUSTMENT EXPENSES

The Department performed a review of the Company's loss and loss adjustment expense ("L&LAE") reserves as of December 31, 2023. The Department accepts the carried reserve liability of $61,824,197 for accident years 2023 and prior as of March 31, 2025. This reflects a deficiency of $11,293,000 in comparison to the Company's carried L&LAE reserves of $50,531,197 at year-end 2023. This deficiency represents 25.79% of the Company's surplus at December 31, 2023, and has already been recognized by the Company in its quarterly statement as of March 31, 2025. 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. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

The prior report on examination did not contain any comments or recommendations.

6. SUMMARY OF COMMENTS AND RECOMMENDATIONS

This report on examination does not contain any comments or recommendations.

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 _____, 2025.

APPOINTMENT NO. 32599

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:*

Lee Prowell

as a proper person to examine the affairs of the

Merchants Preferred 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 February 2024

ADRIENNE A. HARRIS
Superintendent of Financial Services

By: Joan Riddell

Joan Riddell
Deputy Bureau Chief