

REPORT ON EXAMINATION

OF THE

OTSEGO MUTUAL FIRE INSURANCE COMPANY

AS OF

DECEMBER 31, 2007

DATE OF REPORT

MARCH 3, 2009

EXAMINER

WAYNE LONGMORE

TABLE OF CONTENTS

<u>ITEM NO.</u>		<u>PAGE NO.</u>
1.	Scope of examination	2
2.	Description of Company	3
	A. Management	3
	B. Territory and plan of operation	5
	C. Reinsurance	7
	D. Holding company system	9
	E. Significant operating ratios	9
	F. Accounts and records	10
	G. Risk management and internal controls	12
3.	Financial statements	12
	A. Balance sheet	13
	B. Underwriting and investment exhibit	15
4.	Losses and loss adjustment expenses	16
5.	Market conduct activities	16
6.	Compliance with prior report on examination	18
7.	Summary of comments and recommendations	20



STATE OF NEW YORK
INSURANCE DEPARTMENT
ONE COMMERCE PLAZA
ALBANY, NEW YORK 12257

Honorable James J. Wrynn
Superintendent of Insurance
Albany, New York 12257

Sir:

Pursuant to the requirements of the New York Insurance Law, and in compliance with the instructions contained in Appointment Number 30219 dated October 21, 2008 attached hereto, I have made an examination into the condition and affairs of Otsego Mutual Fire Insurance Company as of December 31, 2007, and submit the following report thereon.

Wherever the designation “the Company” appears herein without qualification, it should be understood to indicate Otsego Mutual Fire Insurance Company.

Wherever the term “Department” appears herein without qualification, it should be understood to mean the New York Insurance Department.

The examination was conducted at the Company’s home office located at 143 Arnold Road, Burlington Flats, New York 13315-0040.

1. SCOPE OF EXAMINATION

The Department has performed a single-state examination of the Otsego Mutual Fire Insurance Company. The previous examination was conducted as of December 31, 2002. This examination covered the five-year period from January 1, 2003 through December 31, 2007. 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 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 Statutory Accounting Principles and annual statement instructions when applicable to domestic state regulations.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. The examiners also relied upon audit work performed by the Company’s independent public accountants when appropriate.

This examination report includes a summary of significant findings for the following items as called for in the Financial Condition Examiners Handbook of the NAIC:

- Significant subsequent events
- Company history
- Corporate records
- Management and control
- Fidelity bonds and other insurance
- Territory and plan of operation
- Growth of Company
- Loss experience
- Reinsurance
- Accounts and records
- Statutory deposits
- Financial statements
- Summary of recommendations

This examination report also includes a summary of significant findings regarding market conduct activities.

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, which involve departures from laws, regulations or rules, or which are deemed to require explanation or description.

2. DESCRIPTION OF COMPANY

The Company was organized on February 18, 1897 as Otsego Mutual Fire Insurance Company of Otsego County, for the purpose of transacting business as a cooperative fire insurance corporation in the counties of Otsego and Chenango in New York State. On December 27, 1910, a certificate was issued under Article IX of the provisions of the New York Insurance Law, authorizing the Company to transact business as an advance premium corporation in the counties of Otsego, Chenango, Madison, Oneida, Delaware, Ulster, Orange, and Sullivan in New York State.

On December 29, 1942 the Company merged with Chemical Mutual Fire Insurance Company and Otsego Mutual Fire Insurance Company was the surviving company. On this date the corporate powers were amended to permit the Company to do business in the entire State of New York in accordance with the provisions of Section 367 of the Insurance Law of the State of New York, and wherever authorized by law, in any other State of the United States of America or the District of Columbia.

On June 12, 1943, the Company was authorized to issue non-assessable policies.

A. Management

Pursuant to the Company's charter and by-laws, management of the Company is vested in a board of directors consisting of eleven members. Every person insured by the Company is entitled to one vote in person and may vote by proxy. Two board meetings and two executive committee meetings were held each year of the examination period, thereby complying with Section 6624(b) of the New York Insurance Law.

At December 31, 2007, the board of directors was comprised of the following eleven members:

<u>Director</u>	<u>Principal Business Affiliation</u>
Farron Percy Benjamin West Edmeston, NY	Treasurer, Otsego Mutual Fire Insurance Company
John Arthur Blackman Edmeston, NY	Retired – Minister
Deanne Payne Burke New Hartford, NY	Vice President, Otsego Mutual Fire Insurance Company
Denise Julianna Clark Voorheesville, NY	Assistant Vice President, Research Administration and Advancement University of Maryland
Kelley Burke Cough Sauquoit, NY	President, Otsego Mutual Fire Insurance Company
Kevin Scott Cough New Hartford, NY	Claims Adjuster, Otsego Mutual Fire Insurance Company
Terry Michael Gras West Winfield, NY	Corporate Secretary, Otsego Mutual Fire Insurance Company
Dion Alan Howard Edmeston, NY	Proprietor, Howard's Trailer Sales
Timothy Richard Johnson, Esq. Edmeston, NY	Attorney at Law, The Law Offices of Timothy R. Johnson
Robert Arthur Payne Utica, NY	Owner, U.S. Materials Handling Corp.
Francis Kearn Peo West Winfield, NY	Retired, U.S. Marshall

The minutes of all meetings of the board of directors and the committees thereof held during the examination period were reviewed. Such review indicated that all of the meetings were well attended. Each of the directors had a satisfactory attendance record for the board meetings held.

Each of the director's qualifications, as set forth in Article II Section 1 of Company's by-laws, was reviewed and it appears that each director was duly qualified.

The Company did not provide formal minutes of the compensation committee meetings held during the examination period.

Section 6611(a)(3) of the New York Insurance Law states that:

“The secretary shall maintain a minute book recording the proceedings of all meetings of the corporation, its board of directors and the principal committees thereof.”

As such, it is recommended that the Company maintain formal minutes of committee meetings, as required by Section 6611(a)(3) of the New York Insurance Law.

During the review of the Company's charter and by-laws it was found that the Company had violated certain sections of its by-laws during the period under examination, as follows:

- 1) Article V -Duties of Officers- Section 3 and Section 4 of the by-laws. These sections call for the Secretary and the Treasurer to give a bond, approved by the Board of Directors for the faithful discharge of their duties. No such bonds were provided upon examination.
- 2) Article IV –Meetings- Section I of the by-laws states further that notice of the time, place, and object of the annual meetings of this company shall be given by publication of such notice at least once in each week for two successive weeks immediately preceding such meeting in a newspaper published in Otsego County. Documentation provided as evidence of compliance with this requirement showed that the publication was being made in a Chenango County publication.

Given the above, it is recommended that the Company adhere to all the provisions of its by-laws, henceforth.

At December 31, 2007 the officers of the Company were as follows:

<u>Title</u>	<u>Name</u>
President	Kelley Burke Cough
Vice President	Deanne Payne Burke
Secretary	Terry Michael Gras
Assistant Secretary	June Marie Carey
Treasurer	Farron Percy Benjamin

B. Territory and Plan of Operation

As of December 31, 2007, the Company was licensed to write business in New York State only.

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
19	Motor vehicle and aircraft physical damage
20	Marine and inland marine (inland marine only)

The Company only writes business in New York State. The following schedule shows the direct premiums written by the Company for the period under examination.

<u>Calendar Year</u>	<u>Total Premiums</u>
2003	\$14,310,116
2004	\$14,790,675
2005	\$15,657,556
2006	\$16,983,052
2007	\$16,743,825

Based on the lines of business for which the Company is licensed 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 \$587,303.

The Company's predominant lines of business are homeowners multiple peril and fire, which accounted for 80.9% and 9.9%, respectively of the 2007 direct premium writings. The Company

markets its business through approximately 85 independent agents located throughout the Company's territory and over 90% of the business is on an agency bill basis.

C. Reinsurance

Examination review of the Schedule F data reported by the Company in its filed annual statement was found to accurately reflect its reinsurance transactions. Additionally, management has represented that all material ceded reinsurance agreements transfer both underwriting and timing risk as set forth in Statement of Statutory Accounting Principles ("SSAP") No. 62. Representations were supported by appropriate risk transfer analyses and an attestation from the Company's President (Chief Executive Officer) and its Secretary pursuant to the 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 paragraphs 25 and 26 of SSAP No. 62.

Assumed

The Company assumed a minor volume of business during the examination period when compared to its direct writings. These assumptions represent the Company participation in the Regional Reciprocal Catastrophe Pool.

Ceded

The Company had the following reinsurance program in effect at December 31, 2007.

<u>Type of treaty</u>	<u>Cession</u>
Property	\$440,000 in excess of \$60,000 as respects any one risk, each loss occurrence. Reinsurer's liability shall not exceed \$1,320,000 as respects any one loss occurrence.
Casualty (2 layers)	\$940,000 in excess of \$60,000 per occurrence.
Terrorism Property and Casualty	\$1,320,000 in excess of \$60,000 each contract year.
Basket (loss common to both property and casualty)	\$60,000 in excess of \$60,000 any one occurrence.

The Company had the following all lines quota share reinsurance in effect at December 31,

2007:

Property and Casualty (includes terrorism cover)	50% of the business covered by the agreement after deducting all other reinsurance, subject to a maximum ultimate net loss of \$30,000 each loss and a per occurrence limit of \$9,600,000. Terrorism coverage is limited to \$4,800,000.
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The Company had the following facultative (property first surplus) reinsurance program in effect at December 31, 2007:

Property (First Surplus)	The Company will have a net retention of at least \$5,000 (after 50% quota share) on each risk. Reinsurer will automatically be liable on a pro-rata basis subject to a maximum limit of \$500,000 any one risk and \$20,175,000 per occurrence.
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The Company had the following catastrophe excess of loss reinsurance program in effect at December 31, 2007:

Property Catastrophe (four layers)	75% of \$2,000,000 in excess of \$1,500,000 ultimate net loss any one loss occurrence, not to exceed \$3,000,000 with respect to all occurrences during the term of the agreement.
	75% of \$4,000,000 in excess of \$3,500,000 ultimate net loss any one loss occurrence, not to exceed \$6,000,000 with respect to all occurrences during the term of the agreement.
	75% of \$5,000,000 in excess of \$7,500,000 ultimate net loss any one loss occurrence, not to exceed \$7,500,000 with respect to all occurrences during the term of the agreement.
	100% of \$12,500,000 in excess of \$12,500,000 ultimate net loss any one loss occurrence, not to exceed \$25,000,000 with respect to all occurrences during the term of the agreement.

The Company ceded to authorized and unauthorized reinsurers during the period under examination. The Company exceeded the fifty percent limitation prescribed by Section 1308(e)(1)(A) of the New York Insurance Law for each year under examination. During the period covered by this examination, the Company submitted its various reinsurance agreements to the Department for review as required by Section 1308(e)(1)(A) of the New York Insurance Law.

The insolvency clauses in the Company's ceding agreements make reference to a novation. Circular letter No. 5 (1988) states, in part, the following in reference to a novation:

“Any references to such an event in the reinsurance agreement should indicate that, prior to the implementation of a novation, the certificate of assumption on New York risks would have to be approved by the Superintendent. . . .”

It is recommended that the Company include the above referenced language from Circular Letter No. 5 (1988) in all reinsurance contracts which make reference to a novation.

D. Holding Company System

The Company was not a member of any holding company system as of December 31, 2007.

E. Significant Operating Ratios

The following ratios have been computed as of December 31, 2007, based upon the results of this examination:

Net premiums written to surplus as regards policyholders	6%
Liabilities to liquid assets (cash and invested assets less investments in affiliates)	16%
Premiums in course of collection to surplus as regards policyholders	3%

All of the above ratios fall within the benchmark ranges set forth in the Insurance Regulatory Information System of the National Association of Insurance Commissioners.

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>Ratios</u>
Losses and loss adjustment expenses incurred	\$11,814,762	59.54%
Other underwriting expenses incurred	(1,965,528)	(9.91)
Net underwriting gain	<u>9,993,742</u>	<u>50.37</u>
Premiums earned	<u>\$19,842,976</u>	<u>100.00%</u>

F. Accounts and Records

i. Compliance With Section 1409(a) of the New York Insurance Law - 10% Limitation

Upon review of Schedule E Part 2 of the Company's 2007 annual statement it was noted that the Company had invested \$10,007,938 in a "Government National Mortgage – Daily Repo." This investment represented a sweep account whereby funds in the Company's checking account at the close of each business day were automatically transferred for the purpose of earning a return overnight on funds that ordinarily would not have generated any interest. It is noted that this investment exceeded 10% of the Company's reported admitted assets, thereby violating Section 1409(a) of New York Insurance Law, which states:

"Except as more specifically provided in this chapter, no domestic insurer shall have more than ten percent of its admitted assets as shown by its last statement on file with the superintendent invested in, or loaned upon, the securities (including for this purpose certificates of deposit, partnership interests and other equity interests) of any one institution."

The examiner noted that this violation was already detected by the Department Analysts and an audit letter was sent to the Company. The Company subsequently responded to the Department's letter by stating that it will remain conscious of the requirements of Section 1409(a) of the New York Insurance Law and will seek to remain in compliance.

Nonetheless, it is recommended that the Company strictly adhere to the requirements of Section 1409(a) of the New York Insurance Law, henceforth.

i. Compliance With Section 1411(a) of the New York Insurance Law - Approval of Investments

Section 1411(a) of the New York Insurance Law requires the approval of investments by the Company's board of directors or a committee thereof. The committee's minutes shall be recorded and a report submitted to the board of directors at its next meeting.

A review of the minutes for the period under examination, 2003 through 2007, shows that a listing of the investment activity is included in the minutes, however, there is no wording indicating the actual approval by the Company's board of the investment transactions. A recommendation was included in the previous report relative to compliance with Section 1411(a) of the New York Insurance Law.

It is again recommended that the Company include wording in the minutes indicating that the Company's investment activities are being approved by the board of directors in accordance with Section 1411(a) of the New York Insurance Law.

ii. Compliance With Part 107.4(e) of Regulation 30

The Company was asked to provide documentation regarding the basis of the allocation of expenses to the expense groups shown on Part 3- "Expenses" of the 2007 filed Annual Statement (i.e. Loss Adjustment Expenses, Other Underwriting Expenses and Investment Expenses). The Company was unable to provide sufficient documentation of actual time studies carried out to support the percentages being used in the allocation to the expense groups being shown on Part 3 of the 2007 filed Annual Statement.

It is noted that Part 107.4(e) of Regulation 30 indicates that the methods followed in allocating to expense groups shall be described, kept and supported as set forth under detail of allocation bases.

Given the above, it is recommended that the Company comply with Part 107.4(e) of Regulation 30 as regards the allocation of expenses to the expense groups and ensure that actual time studies performed are documented and that such detailed documentation is readily available for review upon examination.

iii. Compliance With Section 1217 of the New York Insurance Law

During the review of employee reimbursements, it was noted in certain instances that a voucher signed by or on behalf of the payee for goods or services rendered for the Company was not obtained prior to payment being made.

Section 1217 of the New York Insurance Law states the following:

“No domestic insurance company shall make any disbursement of one hundred dollars or more unless evidenced by a voucher signed by or on behalf of the payee as compensation for goods or services rendered for the company, and correctly describing the consideration for the payment. If such disbursement be for services and disbursements, such vouchers shall set forth the services rendered and itemize the disbursements; if it is in connection with any matter pending before any legislative or public body or before any government department or officer, the voucher shall correctly describe also the nature of the matter and the company’s interest therein. If such a voucher is unobtainable, the disbursement shall be evidenced by a statement of an officer or responsible employee affirmed by him as true under the penalties of perjury, stating the reasons therefor and setting forth the particulars above mentioned.”

Given the above, it is recommended that the Company comply with Section 1217 of the New York Insurance Law, henceforth.

G. Risk Management and Internal Controls

During the review of the Company's check printing procedures it was noted that there are no limits on the amount that an individual authorized user could print a check for. Any errors in the checks generated would only possibly be detected upon the monthly account reconciliation. In addition, it was noted that one of the people authorized to print checks is also responsible for preparing the checking account reconciliation. Both of the above appear to be control deficiencies.

It is recommended that the Company seek to establish feasible limits, based on the Company’s operating environment, on individual user’s check printing capabilities as this is a good internal control.

It is recommended that the Company separate the functions of checking account reconciliation and check writing as this is a good internal control.

3. FINANCIAL STATEMENTS

A. Balance Sheet

The following shows the assets, liabilities and surplus as regards policyholders as of December 31, 2007 as determined by this examination and as reported by the Company:

<u>Assets</u>	<u>Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>
Bonds	\$26,845,045	\$ 0	\$26,845,045
Preferred stocks	3,010,481	0	3,010,481
Common stocks	33,035,627	0	33,035,627
Mortgage loans on real estate: First liens	97,615	0	97,615
Real estate: Properties occupied by the company	347,064	0	347,064
Cash, cash equivalents and short-term investments	10,097,960	0	10,097,960
Investment income due and accrued	398,409	0	398,409
Uncollected premiums and agents' balances in course of collection	2,332,221	69,899	2,262,322
Deferred premiums, agents' balances and installments booked but deferred and not yet due	34,533	0	34,533
Amounts recoverable from reinsurers	186,641	0	186,641
Current federal and foreign income tax recoverable and interest thereon	24,511	0	24,511
Furniture and equipment, including health care delivery assets	234,457	234,457	0
Cash value life insurance	1,725,723	0	1,725,723
Prepaid pension expense	1,402,547	1,402,547	0
Pools and associations	<u>272,026</u>	<u>499</u>	<u>271,527</u>
Total assets	<u>\$80,044,860</u>	<u>\$1,707,402</u>	<u>\$78,337,458</u>

Liabilities, Surplus and Other Funds

Losses and loss adjustment expenses		\$ 4,414,160
Commissions payable, contingent commissions and other similar charges		(1,415,742)
Other expenses (excluding taxes, licenses and fees)		257,504
Taxes, licenses and fees (excluding federal and foreign income taxes)		23,823
Current federal and foreign income taxes		238,689
Net deferred tax liability		3,700,834
Unearned premiums		2,778,833
Advance premiums		16,664
Ceded reinsurance premiums payable (net of ceding commissions)		1,291,603
Amounts withheld or retained by company for account of others		2,045
Miscellaneous payable		2,489
Provision for SERPS		<u>519,034</u>
Total liabilities		\$11,829,936
<u>Surplus and Other Funds</u>		
Required surplus	\$ 587,303	
Unassigned funds (surplus)	<u>65,920,219</u>	
Surplus as regards policyholders		<u>66,507,522</u>
Total liabilities, surplus and other funds		<u>\$78,337,458</u>

NOTE: The Internal Revenue Service (IRS) has not performed any audits of the Company's federal income tax returns for the examination period. However, the IRS did perform an audit of the Company's 401K plan in 2003 for plan year 2000. There were no changes required at that time. 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. Underwriting and Investment Exhibit

Surplus as regards policyholders increased \$19,071,129 during the five-year examination period January 1, 2003 through December 31, 2007, detailed as follows:

Underwriting Income

Premiums earned		\$19,842,976
Deductions:		
Losses and loss adjustment expenses incurred	\$ 11,814,762	
Other underwriting expenses incurred	<u>(1,965,528)</u>	
Total underwriting deductions		<u>9,849,234</u>
Net underwriting gain or (loss)		\$ 9,993,742

Investment Income

Net investment income earned	\$8,531,927	
Net realized capital gain	<u>606,718</u>	
Net investment gain or (loss)		9,138,645

Other Income

Net gain or (loss) from agents' or premium balances charged off	(\$43,821)	
Finance and service charges not included in premiums	27,287	
Aggregate write-ins for miscellaneous income	<u>509,940</u>	
Total other income		<u>493,406</u>
Net income before federal and foreign income taxes		\$19,625,793
Federal and foreign income taxes incurred		<u>4,108,496</u>
Net income		<u>\$15,517,297</u>

Capital and Surplus Account

Surplus as regards policyholders per report on examination as of December 31, 2002			\$47,436,393
	<u>Gains in</u>	<u>Losses in</u>	
	<u>Surplus</u>	<u>Surplus</u>	
Net income	\$15,517,297		
Adjustments due to rounding	75		
Net unrealized capital gains	7,335,522		
Change in net deferred income tax		\$1,855,642	
Change in nonadmitted assets		1,487,929	
Aggregate write-ins for gains and losses in surplus	<u>0</u>	<u>438,194</u>	
Total gains and losses	<u>\$22,852,894</u>	<u>\$3,781,765</u>	
Net increase in surplus			<u>19,071,129</u>
Surplus as regards policyholders per report on examination as of December 31, 2007			<u>\$66,507,522</u>

4. LOSSES AND LOSS ADJUSTMENT EXPENSES

The examination liability for the captioned items of \$4,414,160 is the same as reported by the Company as of December 31, 2007. The examination analysis was based on statistical information contained in the Company's internal records and in its filed annual statements.

5. MARKET CONDUCT ACTIVITIES

In the course of this examination, a review was made of the manner in which the Company conducts its business and fulfills its contractual obligations to policyholders and claimants. The review was general in nature and is not to be construed to encompass the more precise scope of a market conduct investigation, which is the responsibility of the Market Conduct Unit of the Property Bureau of this Department.

The general review was directed at practices of the Company in the following areas:

- A. Sales and advertising
- B. Underwriting
- C. Rating
- D. Claims and complaint handling

Parts 216.6(d), 216.6(h) and 216.11 of Regulation 64 Compliance

Examination testing performed as well as supplemental correspondence provided by the Company indicated that there was an instance wherein the Company received notice of a claim, established a claim number, and upon further review determined that there was no coverage. Under this circumstance, a claim file was not maintained and the underlying claim number was not used and was classified by Company personnel as “spoiled.” The Company did not provide documentation showing that a notice was issued indicating that there was no coverage and the explanation thereof.

It was also noted in certain instances that claim denial letters issued did not include wording required by 216.6(h) of Regulation 64.

It is recommended that the Company comply with Part 216.6(d) as well as Part 216.11 of Regulation 64 henceforth when it has determined that there is no coverage, thereby maintaining in a claim file all communications, transactions, notes and workpapers relating to the claim to enable Department personnel to reconstruct all events relating to a claim.

It is also recommended that the Company comply with Part 216.6(h) of Regulation 64 and include the prescribed wording when issuing notices rejecting any element of a claim involving personal property insurance.

Part 218.5(a) of Regulation 90-Agents Termination Notices

During the review of a sample of the Company's producer termination notices, it was noted that some redlining notices were not prominently set out in bold face type on the front of the termination letter sent to agents as required. It was also noted, that some of the notices did not include the Department's correct mailing and website addresses.

It is recommended that the Company comply with the redlining notice requirements of Part 218.5(a) of Regulation 90 when issuing agent termination letters and that it obtain and use the correct wording for said notice. It is noted that a similar recommendation was included in the prior report on examination.

Compliance with Section 3425(d)(1) of the New York Insurance Law-Non-renewal Notices

Section 3425(d)(1) of the New York Insurance Law states that the specific reason or reasons for nonrenewal or conditioned renewal shall be stated in or shall accompany the notice of non-renewal or conditioned renewal.

With respect to personal line non-renewals notices, some of the items reviewed had the following reason for non-renewal: “Loss experience and two-family occupancy” and “three-family dwelling.” A similar recommendation was noted in the previous report on examination. These reasons appear too broad in nature and do not comply with the specificity requirement of the aforementioned section of law.

It is again recommended that the Company provide a specific reason for non-renewal in future non-renewal notices as required by Section 3425(d)(1) of the New York Insurance Law.

6. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

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

<u>ITEM</u>	<u>PAGE NO.</u>
A. <u>Reinsurance</u>	
<p>It was recommended that the Company comply with the requirements of Section 1308(e)(1)(A) of the New York Insurance Law and henceforth, submit any new reinsurance agreements and any subsequent amendments to the reinsurance agreements to the Department.</p> <p>The Company has complied with this recommendation.</p>	8

<u>ITEM</u>	<u>PAGE NO.</u>
B. <u>Directors and Officers Liability Policy</u>	
It was recommended that the Company comply with Regulation 110 (NYCRR Part 72.4) and include a coinsurance clause on its Directors and Officers policy with a minimum coinsurance percentage of 0.5%.	10
The Company has complied with this recommendation.	
C. <u>Accounts and Records</u>	
i. It was recommended that the Company comply with NAIC requirements, reinforced by Circular Letter No. 2 of 1977 and obtain a custodial agreement that includes the requirements specified by the NAIC and New York Insurance Department.	10
The Company has complied with this recommendation.	
ii. It was recommended that the Company be in full compliance with the requirements of Section 1411(a) of the New York Insurance Law by having the approval of all purchase and sales of short-term investments entered into the board minutes through a written statement, thus ensuring that all investments are authorized or approved by its board of directors or a committee thereof responsible for supervising or making such investments.	11
The Company has not fully complied with this recommendation. A similar recommendation is included in this report regarding compliance with Section 1411(a) of the New York Insurance Law. See section 2. F. of this report.	
iii. It was recommended that the Company comply with the requirements of SSAP No. 26, paragraph 6 and calculate amortization of bond premium or discount using the scientific (constant yield) method and bonds containing call provisions should be amortized to the call or maturity date which produces the lowest asset value.	11
The Company has complied with this recommendation.	
iv. The Company should comply with the requirements of SSAP 40 Paragraph 12 and determine the fair value of real estate investments using appraisals that are no more than five years old.	12
The Company has complied with this recommendation.	

<u>ITEM</u>	<u>PAGE NO.</u>
D. <u>Market Conduct Activities</u>	
i. It was recommended that the Company comply with all the requirements of Regulation 90 (NYCRR Parts 218.4(a) and 218.5) and give a specific reason of termination to the agent and make sure the redlining notice is prominently set out in boldface type on the front of the termination letter sent agents as required by Part 218.5.	17
The Company has not fully complied with this recommendation. A similar recommendation is made in this report regarding compliance with 11 NYCRR Part 218.5 (Regulation 90). See section 5 of this report.	
ii. It was recommended that the Company comply with Section 3425(d)(1) of the New York Insurance Law and give a more detailed description of the reason for the termination.	17-18
The Company has not fully complied with this recommendation. A similar recommendation is made in this report regarding Section 3425(d)(1) of the New York Insurance Law. See section 5 of this report.	
iii. It was recommended that the Company comply with New York Insurance Law Section 1313(a) henceforth and ensure that advertised financial information corresponds with its last verified statement (annual or quarterly, at its option) made with the Superintendent.	18
The Company has complied with this recommendation.	

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 formal minutes of committee meetings, as required by Section 6611(a)(3) of the New York Insurance Law.	5
ii. It is recommended that the Company adhere to all the provisions of its charter and by-laws, henceforth.	5

<u>ITEM</u>	<u>PAGE NO.</u>
B. <u>Reinsurance</u>	
It is recommended that the Company include the above referenced language from Circular Letter No. 5 (1988) in all reinsurance contracts which make reference to a novation.	9
C. <u>Accounts and records</u>	
i. It is recommended that the Company strictly adhere to the requirements of Section 1409(a) of the New York Insurance Law, henceforth.	10
ii. It is again recommended that the Company include wording in the minutes indicating that the Company's investment activities are being approved by the board of directors in accordance with Section 1411(a) of the New York Insurance Law.	11
iii. It is recommended that the Company comply with Part 107.4(e) of Regulation 30 as regards the allocation of expenses to the expense groups and ensure that actual time studies performed are documented and that such detailed documentation is readily available for review upon examination.	11
iv. It is recommended that the Company comply with Section 1217 of the New York Insurance Law, henceforth.	12
D. <u>Risk management and internal controls</u>	
i. It is recommended that the Company seek to establish feasible limits, based on the Company's operating environment, on individual user's check printing capabilities as this is a good internal control.	12
ii. It is recommended that the Company separate the functions of checking account reconciliation and check writing as this is a good internal control.	12
E. <u>Market conduct activities</u>	
i. It is recommended that the Company comply with Part 216.6(d) as well as Part 216.11 of Regulation 64 henceforth when it has determined that there is no coverage, thereby maintaining in a claim file all communications, transactions, notes and workpapers relating to the claim to enable Department personnel to reconstruct all events relating to a claim.	17
ii. It is recommended that the Company comply with Part 216.6(h) of Regulation 64 and include the prescribed wording when issuing notices rejecting any element of a claim involving personal property insurance.	17

<u>ITEM</u>		<u>PAGE NO.</u>
iii.	It is recommended that the Company comply with the redlining notice requirements of Part 218.5(a) of Regulation 90 when issuing agent termination letters and that it obtain and use the correct wording for said notice. It is noted that a similar recommendation was included in the prior report on examination.	18
iv.	It is again recommended that the Company provide a specific reason for non-renewal in future non-renewal notices as required by Section 3425(d)(1) of the New York Insurance Law.	18

Respectfully submitted,

Wayne Longmore,
Senior Insurance Examiner

STATE OF NEW YORK)
)SS:
)
COUNTY OF ALBANY)

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

Wayne Longmore

Subscribed and sworn to before me

this _____ day of _____, 2010.

STATE OF NEW YORK
INSURANCE DEPARTMENT

I, ERIC R DINALLO, Superintendent of Insurance of the State of New York,
pursuant to the provisions of the Insurance Law, do hereby appoint:

Wayne Longmore

as proper person to examine into the affairs of the

Otsego Mutual Fire Insurance Company

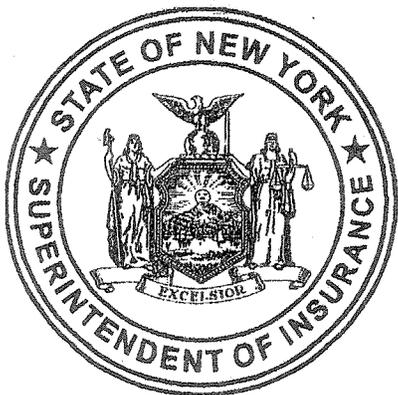
and to make a report to me in writing of the condition of the said

Company

with such other information as he shall deem requisite.

*In Witness Whereof, I have hereunto subscribed by the
name and affixed the official Seal of this Department, at
the City of New York,*

this 21st day of Oct-08



A handwritten signature in black ink, appearing to read "Eric Dinallo".

ERIC R. DINALLO
Superintendent of Insurance