

REPORT ON EXAMINATION

OF THE

FARMERS MUTUAL INSURANCE COMPANY

OF MILAN, PINE PLAINS AND STANFORD

AS OF

DECEMBER 31, 2010

DATE OF REPORT

OCTOBER 3, 2011

EXAMINER

JOHN CONLEY

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NEW YORK STATE  
DEPARTMENT *of*  
FINANCIAL SERVICES

Andrew M. Cuomo  
Governor

Benjamin M. Lawsky  
Superintendent

October 3, 2011

Honorable Benjamin M. Lawsky  
Superintendent of Financial Services  
Albany, New York 12257

Pursuant to the requirements of the New York Insurance Law, and in compliance with the instructions contained in Appointment Number 30724 dated June 14, 2011, attached hereto, I have made an examination into the condition and affairs of Farmers Mutual Insurance Company of Milan, Pine Plains and Stanford as of December 31, 2010, and submit the following report thereon.

Wherever the designation “the Company” appears herein without qualification, it should be understood to indicate Farmers Mutual Insurance Company of Milan, Pine Plains and Stanford.

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

The examination was conducted at the Company’s home office located at 64 Simmons Street, Millerton, New York 12546.

## **1. SCOPE OF EXAMINATION**

The previous examination was conducted as of December 31, 2005. This examination covered the five-year period from January 1, 2006 through December 31, 2010, and was limited in scope to these balance sheet items considered by this Department to require analysis, verification or description, including: invested assets, loss and loss adjustment expenses and the provision for reinsurance. The examination included a review of income, disbursements and Company records deemed necessary to accomplish such analysis or verification. Transactions occurring subsequent to this period were reviewed where deemed appropriate by the examiner.

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 the 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 organized on April 19, 1883, for the purpose of transacting business as an assessment co-operative fire insurance company in the Town of Milan, Dutchess County, New York.

Under the terms of an agreement of merger approved by this Department in 1957, the Farmers Town Mutual Insurance Company of Red Hook, New York was merged under the title and charter of the Farmers Mutual Insurance Company of Milan, Pine Plains and Stanford.

### **A. Management**

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 thirteen members. Additionally, the by-laws require that the Board shall be divided into three groups, as nearly equal in number as possible, with one group being elected at each annual policyholder meeting.

The board meets four times during each calendar year. At December 31, 2010, the board of directors was comprised of the following nine members:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Frederick Battenfeld Red Hook, NY	Florist and Christmas Tree Plantation Owner, Vice President, Farmers Mutual Insurance Company of Milan
David W. Bulkely Clinton Corners, NY	Farmer
Sidney W. Byron Millerton, NY	Secretary/Treasurer, Farmers Mutual Insurance Company of Milan, Insurance Broker
K. Barrett Chase Pine Plains, NY	President, Farmers Mutual Insurance Company of Milan Farmer
David Fraleigh Red Hook, NY	Apple Farmer
J. Stephen Odak Red Hook, NY	Gravel Pit Operator
Robert Podris Ancramdale, NY	Fuel Oil Dealer
Jerome Simonetty Poughkeepsie, NY	Retired IBM Manager Part-time Farmer
Lloyd Vaill Pine Plains, NY	Farmer

A review of the minutes of the board of directors' meetings held during the examination period indicated that the meetings were generally well attended and each board member had an acceptable record of attendance.

Pursuant to Section 312(b) of the New York Insurance Law, a copy of the prior report on examination should have been furnished by the Company to each member of its board of directors, and each member should have signed a statement, which shall be retained in the insurer's files confirming that such member has received and read such report. The Company was not able to provide evidence that the prior report on examination was furnished to each board member, nor could it provide signed statements confirming that each member received and read such report.

It is recommended that the Company comply with Section 312(b) of the New York Insurance Law and furnish each board member with a copy of its filed report on examination and obtain a

signed statement from each board member acknowledging that they have received and read such report. Additionally, the distribution of the report to the board members and receipt of signed acknowledgments should be reflected in the Board of Directors minutes.

As of December 31, 2010, the principal officers of the Company were as follows:

<u>Name</u>	<u>Title</u>
K. Barrett Chase	President
Frederick Battenfeld	Vice President
J. Stephen Odak	Second Vice President
Sidney W. Byron	Secretary and Treasurer

B. Territory and Plan of Operation

As of December 31, 2010, the Company was licensed to write business in Dutchess and Columbia Counties in the State of 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

The Company's predominant lines of business are fire and windstorm. Policies are issued by the Company for a term of three years, with applications being taken and inspections made by the Secretary-Treasurer.

Based on the lines of business for which the Company is licensed and pursuant to the requirements of Articles thirteen and sixty-six 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 premiums written by the Company for the period under examination:

<u>Calendar Year</u>	<u>Direct Written Premiums</u>
2006	\$56,209
2007	\$58,605
2008	\$62,558
2009	\$40,469
2010	\$43,260

C. Reinsurance

The Company did not assume any reinsurance during the examination period.

The Company has structured its ceded reinsurance program as follows:

<u>Type of Treaty</u>	<u>Cessions</u>
Property per Risk Excess of Loss (1 layer)	\$98,000 in excess of \$14,000 per risk, per loss. Limit of \$210,000 each loss occurrence.
Property Catastrophe Excess of Loss	As respects the peril of wind, 100% of the amount by which the ultimate net loss exceeds 10% of the Company's policyholders' surplus, each loss occurrence. No claim shall be made unless the loss occurrence involves 3 or more risks.

Since the previous examination, the Company's retention has remained at \$14,000 per risk, per loss on property risks and is currently at 10% of surplus per occurrence for windstorm catastrophe.

As of December 31, 2010, the reinsurance activity reflected in the Company's Schedule F represented only premium cessions. This activity was found to be accurate.

The ceded reinsurance agreement in effect as of the examination date was reviewed and found to contain the required clauses, including an insolvency clause meeting the requirements of Section 1308 of the New York Insurance Law.

It is noted that the ceded reinsurance agreement was accounted for utilizing reinsurance accounting as set forth in paragraph 25 and 26 of the National Association of Insurance Commissioners ("NAIC") Accounting Practices and Procedures Manual, Statements of Statutory Accounting Principles ("SSAP") No. 62.

D. Holding Company System

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

E. Significant Operating Ratios

The following ratios have been computed as of December 31, 2010, based upon the results of this examination:

Net premiums written in 2010 to surplus as regards policyholders	0.011 to 1
Liabilities to liquid assets (cash and invested assets less investments in affiliates)	1.13%

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>
Loss and loss adjustment expenses	\$ 49,275	23.13%
Other underwriting expenses	140,621	66.02
Net underwriting gain/loss	<u>23,097</u>	<u>10.85</u>
Premiums earned	<u>\$212,993</u>	<u>100.00%</u>

F. Accounts and Records

i. Investment Limitation

At December 31, 2010, the Company held shares of Coca Cola, Inc. with a market value of \$460,390 and shares of Exxon Mobil Corporation with a market value of \$365,600. Pursuant to the provisions of Section 1409(a) of the New York Insurance Law, no domestic insurer shall have more than ten percent of its admitted assets invested in, or loaned upon, the securities of any one institution. It is noted that the Company's investments in Coca Cola, Inc. and Exxon Mobil Corporation exceeded 10% of the Company's reported admitted assets at December 31, 2010 of \$3,099,442. The amount of the excess investment is not material to the Company's overall financial position; therefore, no examination change is included in the accompanying financial statements. However, it is recommended that the Company refrain from investing

more than 10% of its admitted assets in any one institution pursuant to the provisions of Section 1409(a) of the New York Insurance Law.

ii. Schedule P

Upon review of the Company's filed 2010 Annual Statement, it was noted that Schedule P, Part 1 contained errors. In Column 4 (Loss Payments, Direct and Assumed), the Company failed to include the payments made for the most current accident year. Additionally the Company did not complete Columns 12 (Number of Claims Reported) or 25 (Number of Claims Outstanding). The errors were not material and did not have any effect on the Company's balance sheet. However, it is recommended that the Company exercise greater care in the preparation of Schedule P.

iii. Custodial Agreement

The Company's custodial agreement with Wells Fargo Advisors, LLC does not include the provisions and safeguards recommended by Department and by the NAIC Financial Condition Examiners Handbook. It is recommended that the Company revise its custodial agreement to include the provisions and safeguards recommended by both the Department and by the NAIC.

iv. Certificates of Deposit

Upon review of the Company's filed 2010 Annual Statement, it was noted that the Company reported several certificates of deposit having a duration of more than one year as cash. Pursuant to Paragraph 2 of SSAP 26, certificates of deposit that have a maturity date in excess of one year from the date of acquisition should be classified as bonds. It is recommended that the Company report certificates of deposit with a maturity in excess of one year from the date of acquisition as bonds, pursuant to the provisions of SSAP 26.

### 3. FINANCIAL STATEMENTS

#### A Balance Sheet

The following shows the assets, liabilities and surplus as regards policyholders as of December 31, 2010 as determined by this examination and as reported by the Company:

<u>Assets</u>	<u>Assets</u>	<u>Non- Admitted Assets</u>	<u>Net-Admitted Assets</u>
Bonds	\$ 400,000	\$ 0	\$ 400,000
Stocks:			
Preferred	111,231		
Common	2,556,754		2,556,754
Cash	12,815		12,815
Investment income due and accrued	<u>18,642</u>	<u>0</u>	<u>18,642</u>
Total assets	<u>\$3,099,442</u>	<u>\$ 0</u>	<u>\$3,099,442</u>

#### Liabilities and Surplus

##### Liabilities

Loss and loss adjustment expense		\$ 1,000
Unearned premiums		34,248
Amounts withheld or retained by Company for account of others		<u>(382)</u>
Total liabilities		\$ 34,866

##### Surplus

Required surplus	\$ 100,000	
Unassigned funds (surplus)	<u>2,964,576</u>	
Surplus as regards policyholders		<u>3,064,576</u>
Total liabilities and surplus		<u>\$3,099,442</u>

NOTE: 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

Surplus as regards policyholders increased \$382,136 during the five-year examination period January 1, 2006 through December 31, 2010, detailed as follows:

Underwriting Income

Premiums earned		\$212,993
Losses and loss adjustment expenses incurred	\$ 49,275	
Other underwriting expenses incurred	<u>140,621</u>	
Total underwriting deductions		<u>189,896</u>
Net underwriting gain (loss)		\$ 23,097

Investment Income

Net investment income earned	\$ 425,247	
Net realized capital gain or (loss)	<u>(107,810)</u>	
Net investment gain		317,437

Other Income

Aggregate write-ins for miscellaneous income	\$ <u>41,602</u>	
Total other income		<u>41,602</u>

Net income after dividends to policyholders but before federal and foreign income taxes		\$382,136
Federal and foreign income taxes incurred		<u>0</u>
Net income		<u>\$382,136</u>

C. Capital and Surplus

Surplus as regards policyholders per report on examination as of December 31, 2005			\$2,486,555
	<u>Gains in</u> <u>Surplus</u>	<u>Losses in</u> <u>Surplus</u>	
Net income	\$382,136		
Net unrealized capital gains or (losses)	203,019		
Aggregate write-in for losses		\$8,198	
Change in non-admitted assets	<u>1,064</u>	<u>0</u>	
Total gains and losses	<u>\$586,219</u>	<u>\$8,198</u>	
Net increase in surplus			<u>578,021</u>
Surplus as regards policyholders per report on examination as of December 31, 2010			<u>\$3,064,576</u>

4. LOSS AND LOSS ADJUSTMENT EXPENSES

The examination liability for the captioned items of \$1,000 is the same as reported by the Company as of December 31, 2010.

## 5. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

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

<u>ITEM</u>	<u>PAGE NO.</u>
A. <u>Management</u>	
i.     The Company should comply with the requirements of the Annual Statement Instructions and list all directors as of the date of the Annual Statement.	4
The Company has complied with this recommendation.	
ii.    The Company should comply with Section 312(b) of the New York Insurance Law and prepare a formal document, to be signed by each of the board members acknowledging their receipt and review of report on examination and this review should be indicated in the respective minutes.	4
The Company has not complied with this recommendation. A similar comment is made in this report.	
B. <u>Accounts and Records</u>	
i. <u>Investment Limitation</u>	
It is recommended that the Company comply with Section 6623(c) of the New York Insurance Law and limit its investment in certificates of deposit of any one institution to the amount of insurance provided by the Federal Deposit Insurance Corporation.	8-9
The Company has complied with this recommendation.	
ii. <u>Certificates of Deposit</u>	
It is recommended that the Company comply with the Statement of Statutory Accounting Principles No. 26 paragraph 2 as well as SSAP No. 2 paragraph 3 and classify certificates of deposit that have a maturity date in excess of one year from the date of acquisition as bonds.	9
The Company has not complied with this recommendation. A similar recommendation is contained in this report.	

<u>ITEM</u>	<u>PAGE NO.</u>
iii. <u>Cash-Checking Account Reconciliation</u>	
<p>It is again recommended that the Company prepare, or have prepared, a monthly bank reconciliation that will reconcile the balance per bank to the Company's books as required by Section 6611(a)(1) of the New York Insurance Law.</p> <p>The Company has complied with this recommendation.</p>	10
iv. <u>Annual Statement Page 2 Reporting</u>	
<p>The Company should comply with the 2005 Annual Statement instructions when completing page 2 and include in the non-admitted asset column only those amounts for which the state does not allow the Company to take credit.</p> <p>The Company has complied with this recommendation.</p>	10
v. <u>Custodian Agreement</u>	
<p>It is again recommended that the Company comply with Department guidelines, as set forth by NAIC guidelines, reinforced by Circular Letter No. 2 of 1977 and obtain a custodial agreement that includes the suggestions specified by the NAIC and New York Insurance Department.</p> <p>The Company has not complied with this recommendation. A similar comment is made in this report.</p>	10-11
vi. <u>Rent and Travel Expense</u>	
<p>It is again recommended that all payments for rent and travel be broken down between these two accounts in the ledger, reconciled to the Annual Statement expense Exhibit and that the rent payments be reasonably justified, as required by Section 6611(a)(1).</p> <p>The number of transactions for rent and travel were not significant and the amounts were not material to the Company's surplus. Therefore, the recommendation will not be repeated in this report.</p>	11
vii. <u>Signatory Requirements</u>	
<p>It is recommended that the Company management ensure that there are at least two officers listed as signatories on all current and future deposit accounts as this is a good internal control.</p> <p>The Company has complied with this recommendation.</p>	12

<u>ITEM</u>	<u>PAGE NO.</u>
viii. <u>Common Stocks</u>	
It is again recommended that the Company comply with Section 1409 (a) of the New York Insurance Law by limiting investments in any one institution to ten percent of admitted assets.	12
The Company has not complied with this recommendation. A similar comment is made in this report.	

## **6. SUMMARY OF COMMENTS AND RECOMMENDATIONS**

<u>ITEM</u>	<u>PAGE NO.</u>
A. <u>Management</u>	
i. It is recommended that the Company comply with Section 312(b) of the New York Insurance Law and furnish each board member with a copy of its filed report on examination and obtain a signed statement from each board member acknowledging that they have received and read such report. Additionally, the distribution of the report to the board members and receipt of signed acknowledgments should be reflected in the Board of Directors minutes.	3-4
B. <u>Accounts and Records</u>	
i. <u>Investment Limitation</u>	
It is recommended that the Company refrain from investing more than 10% of its admitted assets in any one institution pursuant to the provisions of Section 1409(a) of the New York Insurance Law.	6
ii. <u>Schedule P</u>	
It is recommended that the Company exercise greater care in the preparation of Schedule P.	7
iii. <u>Custodial Agreement</u>	
It is recommended that the Company revise its custodial agreement to include the provisions and safeguards recommended by both the Department and by the NAIC.	7
iv. <u>Certificates of Deposit</u>	
It is recommended that the Company report certificates of deposit with a maturity in excess of one year from the date of acquisition as bonds, pursuant to the provisions of SSAP 26.	7

Respectfully submitted,

\_\_\_\_\_/s/\_\_\_\_\_  
John Conley,  
Senior Insurance Examiner

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

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

\_\_\_\_\_/s/\_\_\_\_\_  
John Conley

Subscribed and sworn to before me

this \_\_\_\_\_ day of \_\_\_\_\_, 2012.

Appointment No. 30724

STATE OF NEW YORK  
INSURANCE DEPARTMENT

I, James J. Wrynn Superintendent of Insurance of the State of New York,  
pursuant to the provisions of the Insurance Law, do hereby appoint:

**John Conley**

*as proper person to examine into the affairs of the*

**FARMERS MUTUAL INSURANCE COMPANY OF MILAN, PINE PLAINS AND  
STANFORD**

*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 14th day of June, 2011*



*James J. Wrynn*  
\_\_\_\_\_  
JAMES J. WRYNN  
Superintendent of Insurance