

REPORT ON EXAMINATION

OF THE

CALLICOON CO-OPERATIVE INSURANCE COMPANY

AS OF

DECEMBER 31, 2009

DATE OF REPORT:

NOVEMBER 12, 2010

EXAMINER:

ROBERT VARGAS

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STATE OF NEW YORK
INSURANCE DEPARTMENT
25 BEAVER STREET
NEW YORK, NEW YORK 10004

November 12, 2010

Honorable James J. Wynn
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 30561 dated June 18, 2010, attached hereto, I have made an examination into the condition and affairs of Callicoon Co-operative Insurance Company as of December 31, 2009, and submit the following report thereon.

Wherever the designations "the Company" or "CCIC" appear herein without qualification, they should be understood to indicate Callicoon Co-operative Insurance Company.

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

The examination was conducted at the Company's home office located at 15 Chapel Street, Jeffersonville, NY 12748.

1. SCOPE OF EXAMINATION

The Department has performed an examination of Callicoon Co-operative Insurance Company. The previous examination was conducted as of December 31, 2004. This examination covered the five-year period from January 1, 2005 through December 31, 2009. 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 (“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 financially significant accounts and activities of the Company were considered in accordance with the risk-focused examination process. This examination also included a review and evaluation of the Company’s own control environment assessment.

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

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

Callicoon Co-operative Insurance Company was organized on April 13, 1878 as Callicoon Agricultural Fire Relief Association of Sullivan County, New York (“Association”) for the purpose of transacting business as an assessment co-operative insurance association in Sullivan County. Subsequently, the territorial limits were extended to cover all the counties in the State, excluding the counties of New York, Kings, Queens, Bronx and Richmond. In 1964, this Department approved a change of name of the Association to the Callicoon Co-operative Insurance Company.

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 eleven nor more than eighteen members. The board meets four times during each calendar year. At December 31, 2009, the board of directors was comprised of the following thirteen members:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Roger E. Bisland Glen Spey, NY	Insurance Agent
David W. Bodenstein Jeffersonville, NY	Insurance Agent
Philip E. Conaty Monticello, NY	Secretary Treasurer, Callicoon Co-operative Insurance Company
John K. Gempler Kenoza Lake, NY	Vice President, Callicoon Co-operative Insurance Company
Carol K. Lane Monticello, NY	Retired
William J. Lane Monticello, NY	Retired

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Clarence Loucks Livingston Manor, NY	President, Callicoon Co-operative Insurance Company
Douglas E. Loucks Livingston Manor, NY	Correction Officer
William B. Merrill Hurley, NY	Independent Claim Adjuster
Jeanne L. Smith Livingston Manor, NY	Employee, Callicoon Co-operative Insurance Company Insurance Agent
Edward T. Sykes Callicoon, NY	Assistant Vice President, Callicoon Co-operative Insurance Company
Lee Titus Wallkill, NY	Insurance Agent
Harry L. Wilcox Roscoe, NY	Dairy 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 has an acceptable record of attendance.

As of December 31, 2009, the principal officers of the Company were as follows:

<u>Name</u>	<u>Title</u>
Clarence Loucks	President
Philip E. Conaty	Secretary/Treasurer
John K. Gempler	Vice President
Edward T.Sykes	Assistant Vice President

B. Territory and Plan of Operation

As of December 31, 2009, the Company was licensed to write business in New York 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 insurance
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)

The Company is also licensed as of December 31, 2009, to accept and cede reinsurance as provided in Section 6606 of the New York Insurance Law.

Based on the lines of business for which the Company is licensed and pursuant to the requirements of Article 66 of the New York Insurance Law, the Company is required to maintain a minimum surplus to policyholders in the amount of \$100,000. The Company writes predominantly commercial multiple peril, homeowners multiple peril, and fire insurance, which accounted for 42%, 35% and 13%, respectively, of its 2009 net premiums written. The Company writes direct business through independent agents.

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

<u>Calendar Year</u>	<u>Direct Premiums Written</u>
2005	\$5,565,971
2006	\$5,780,986
2007	\$5,974,019
2008	\$6,101,556
2009	\$5,989,345

C. Reinsurance

During the period covered by this examination, the Company did not assume any reinsurance business.

As of December 31, 2009, the Company had the following reinsurance program in place:

<u>Type of treaty</u>	<u>Cession</u>
<u>Multiple Line Excess of loss</u>	
<u>Property</u> 3 layers	\$1,200,000 in excess of \$100,000 ultimate net loss each risk.
<u>Casualty</u> 3 layers	\$950,000 in excess of \$50,000 ultimate net loss each risk, each loss occurrence.
<u>Casualty Clash</u>	\$1,000,000 in excess of \$1,000,000 ultimate net loss each loss occurrence.
<u>Property Catastrophe</u> 3 layers	95% of \$3,700,000 in excess of \$300,000.

All of the Company's cessions during the examination period were to authorized or 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 of the Schedule F data 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 SSAP No. 62. Representations were supported by appropriate risk transfer analyses and an attestation from the Company's chief executive 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 paragraphs 26 and 27 of NAIC Accounting Practices and Procedures Manual, Statements of Statutory Accounting Principles ("SSAP") No. 62.

D. Holding Company System

As of December 31, 2009, the Company was not a member of any holding company system.

E. Significant Operating Ratios

The following ratios have been computed as of December 31, 2009, based upon the results of this examination:

Net premiums written to surplus as regards policyholders	.27:1
Liabilities to liquid assets (cash and invested assets less investments in affiliates)	20%
Premiums in course of collection to surplus as regards policyholders	1%

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	\$ 9,328,140	44.04%
Other underwriting expenses incurred	8,554,397	40.38
Net underwriting gain	<u>3,299,676</u>	<u>15.58</u>
Premiums earned	<u>\$21,182,213</u>	<u>100.00%</u>

F. Accounts and Records

Compliance with Department Regulation 118

The engagement letter of the Company's certified public accountant ("CPA") for the year ending December 31, 2009, indicates the engagement partner has served in this capacity since 1993. Part 89.5(c)(1) of Department Regulation No. 118 states:

"A company shall not utilize the same lead or coordinating CPA as an audit partner who has primary responsibility for the audit for more than five consecutive years. The person shall

be disqualified from acting in that or a similar capacity for the same company or its insurance subsidiaries or affiliates for a period of five consecutive years.”

It is recommended that the Company comply with Part 89.5(c)(1) of Department Regulation No. 118 and not utilize the same lead or coordinating CPA as an audit partner who has primary responsibility for the audit for more than five consecutive years.

3. FINANCIAL STATEMENTS

A. Balance Sheet

The following shows the assets, liabilities and surplus as regards policyholders as of December 31, 2009 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	\$18,294,288	\$ 0	\$18,294,288
Preferred stocks	84,000		84,000
Common stocks	580,611		580,611
Properties occupied by the company	269,177		269,177
Cash, cash equivalents and short-term investments	713,470		713,470
Investment income due and accrued	286,007		286,007
Uncollected premiums and agents' balances in the course of collection	243,617		243,617
Deferred premiums, agents' balances and installments booked but deferred and not yet due	1,029,584		1,029,584
Amounts recoverable from reinsurers	<u>96,414</u>	<u>0</u>	<u>96,414</u>
Total assets	<u>\$21,597,167</u>	<u>\$ 0</u>	<u>\$21,597,167</u>

Liabilities, Surplus and Other FundsLiabilities

Losses and loss adjustment expenses		\$ 1,546,816
Commissions payable, contingent commissions and other similar charges		190,980
Unearned premiums		<u>3,193,429</u>
Total liabilities		\$ 4,931,225

Surplus and Other Funds

Unassigned funds (surplus)	\$16,565,942	
Minimum surplus requirement	<u>100,000</u>	
Surplus as regards policyholders		<u>16,665,942</u>
Total liabilities, surplus and other funds		<u>\$21,597,167</u>

NOTE: The Internal Revenue Service has begun the audit covering tax year 2008 and is currently under examination. 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 \$4,158,256 during the five-year examination period January 1, 2005 through December 31, 2009, detailed as follows:

Underwriting income

Premiums earned		\$21,182,213
Deductions:		
Losses and loss adjustment expenses incurred	\$9,328,140	
Other underwriting expenses incurred	<u>8,554,397</u>	
Total underwriting deductions		<u>17,882,537</u>
Net underwriting gain or (loss)		\$ 3,299,676

Investment Income

Net investment income earned	\$3,184,022	
Net realized capital gains (losses)	<u>(175,126)</u>	
Net investment gain or (loss)		3,008,896

Other Income

Finance and service charges not included in premiums	\$ 217,276	
Aggregate write-ins for miscellaneous income	<u>(8)</u>	
Total other income		<u>217,268</u>
Net income before federal and foreign income taxes		\$ 6,525,840
Federal and foreign income taxes incurred		<u>1,947,390</u>
Net income		<u>\$ 4,578,450</u>

Surplus as regards policyholders, per report on examination as of December 31, 2004			\$12,507,686
	<u>Gains in Surplus</u>	<u>Losses in Surplus</u>	
Net income	\$4,578,450		
Net unrealized capital gain or (loss)	<u>0</u>	<u>\$420,194</u>	
Total gains and losses in surplus	<u>\$4,578,450</u>	<u>\$420,194</u>	
Net increase (decrease) in surplus			<u>4,158,256</u>
Surplus as regards policyholders per report on examination as of December 31, 2009			<u>\$16,665,942</u>

4. LOSSES AND LOSS ADJUSTMENT EXPENSES

The examination liability for the captioned items of \$1,546,816 is the same as reported by the Company as of December 31, 2009. The examination analysis was conducted in accordance with generally accepted actuarial principles and practices and was based on statistical information contained in the Company's internal records and in its filed annual statements.

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. It is recommended that the Company adhere to all the provisions of Section 712(a) of the New York Business Corporation Law and have its board approve all appointments to board committees.	4

The Company has complied with this recommendation.

<u>ITEM</u>	<u>PAGE NO.</u>
ii. It is recommended that the Company comply with Section 1411(a) of the New York Insurance Law and have all its investments approved by its board of directors. The Company has complied with this recommendation.	4
B. <u>Reinsurance</u>	
i. It was recommended that the Company comply with Section 6606(a)(2) of the New York Insurance Law and obtain the permission of the Superintendent before ceding reinsurance to any unauthorized insurer. The Company has complied with this recommendation.	7
ii. It is recommended that the company comply with Section 1308(e)(1)(A) of the New York Insurance Law. The Company has complied with this recommendation.	7
iii. It is recommended that the Company comply with the annual statement instructions and complete Schedule F with accurate data that reflects its reinsurance transactions. The Company has complied with this recommendation.	7-8
C. <u>Accounts and Records</u>	
i. It is recommended that the Company comply with the annual statement instructions and include in the annual statement Supplemental Compensation Exhibit all compensation paid to officers and employees. The Company has complied with this recommendation.	9-10
ii. It is recommended that the Company comply with Section 6611(a)(4)(c) of the New York Insurance Law regarding the signature requirements on checks. The Company has complied with this recommendation.	10
iii. It is recommended that the Company comply with Department Circular Letter 13 of 1976 and obtain a custodial agreement that will include the language put forth by the Circular Letter. The Company has complied with this recommendation.	10

<u>ITEM</u>	<u>PAGE NO.</u>
iv. It is recommended that management establish and maintain written documentation supporting the time study on the allocation of salaries into the major expense groups in accordance with Department Regulation 30. Also, it is recommended that the Company allocate expenses to each expense category in accordance with. The Company has complied with this recommendation.	11
D. <u>Market Conduct</u>	
i. It is recommended that the Company comply with Section 3425(d)(1) and 3425(e)(2) of the New York Insurance Law and provide more specific reasons for commercial and personal lines cancellations/non renewals issued forthwith. The Company has complied with this recommendation.	16

6. SUMMARY OF COMMENTS AND RECOMMENDATIONS

<u>ITEM</u>	<u>PAGE NO.</u>
A. <u>Accounts and Records</u> It is recommended that the Company comply with Part 89.5 9(c)(1) of Department Regulation No. 118 and not utilize the same lead or coordinating CPA as an audit partner who has primary responsibility for the audit for more than five consecutive years.	8

Respectfully submitted,

_____/S/
Robert Vargas
Senior Insurance Examiner

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

ROBERT VARGAS, being duly sworn, deposes and says that the foregoing report, submitted < is true to the best of his knowledge and belief.

_____/S/
Robert Vargas

Subscribed and sworn to before me
this _____ day of _____, 2011.

Appointment No 30561

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:

Robert Vargas

as proper person to examine into the affairs of the

Callicoon Co-operative Insurance Company

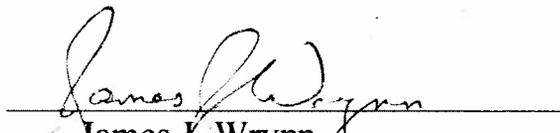
and to make a report to me in writing of the condition of the said

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 18th day of June 2010


James J. Wrynn
Superintendent of Insurance

