

REPORT ON EXAMINATION

OF THE

DRYDEN MUTUAL INSURANCE COMPANY

AS OF

DECEMBER 31, 2008

DATE OF REPORT

AUGUST 14, 2009

EXAMINER

NYANTAKYI AKUOKO

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

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 30300 dated March 4, 2009 attached hereto, I have made an examination into the condition and affairs of Dryden Mutual Insurance Company as of December 31, 2008, and submit the following report thereon.

Wherever the designation “the Company” appears herein without qualification, it should be understood to indicate Dryden Mutual 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 12 Ellis Drive, Dryden, New York 13053-9633.

1. SCOPE OF EXAMINATION

The Department has performed a single-state examination of Dryden Mutual Insurance Company. The previous examination was conducted as of December 31, 2003. This examination covered the five-year period from January 1, 2004 through December 31, 2008. 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. 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

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

The Company was organized on May 7, 1860 as the Dryden and Groton Mutual Fire Insurance Company, for the purpose of transacting business as an assessment cooperative fire insurance association in the Towns of Dryden and Groton, Tompkins County, New York. It was incorporated on December 14, 1910, under the laws of the State of New York.

On April 1, 1984, the Company converted to an advance premium corporation, changing its corporate title to Dryden Mutual 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 nine nor more than fifteen members. The board met ten times during each calendar year. At December 31, 2008, the board of directors was comprised of the following nine members:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Lawrence Leroy Brown Marathon, NY	Retired Farmer & Self-employed: Horse Raising and Trading
John Jacob Carlin, Esq. Binghamton, NY	Attorney and Partner Levene, Gouldin & Thompson, LLP
Richard James Clark Dryden, NY	Owner, Dryden Shur-Fine Grocery Supermarket Secretary-Treasurer, Dryden Mutual Insurance Company
William James Kaminski Romulus, NY	Human Resources Manager, Seneca-Cayuga ARC

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Frank J. Lamphier Locke, NY	Retired & Vice President, Dryden Mutual Insurance Company
Verl Rankin, Jr. Groton, NY	Retired
Donald Paul Reed Cortland, NY	Owner, Reed's Seeds President, Dryden Mutual Insurance Company
Gary Lee Wood, PE Dryden, NY	Self-employed Consulting Engineer

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.

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." Upon examination, it was noted that the principal committees of the board met at least once each year during the period of examination, but no minutes were kept by the secretary. It is recommended that the Company maintain minutes of proceedings of all principal board committee meetings to comply with Section 6611(a)(3) of the New York Insurance Law.

As of December 31, 2008, the principal officers of the Company were as follows:

<u>Name</u>	<u>Title</u>
Donald Paul Reed	President
Richard James Clark	Secretary-Treasurer
Frank J. Lamphier	Vice President
Robert Banning Baxter	Chief Executive Officer
Dana James Abbey	Chief Operating Officer
Peter Andrew Thorp	Senior Vice President & Marketing Manager
Samuel John Crisalli	Vice President & Claims Manager
Diana Louise Tracy	Vice President & Controller

B. Territory and Plan of Operation

As of December 31, 2008, 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
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 was also licensed as of December 31, 2008, to accept and cede reinsurance as provided in Section 6606 of the Insurance Law of the State of New York.

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

<u>Calendar Year</u>	<u>Direct Written Premiums (000's omitted)</u>
2004	\$35,187
2005	\$38,034
2006	\$39,654
2007	\$40,144
2008	\$41,043

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 \$650,000.

The Company underwrites predominantly commercial multiple peril, fire, homeowners multiple peril and other liability, which accounted for 51.6%, 17.1%, 13.2% and 12.6%, respectively,

of the 2008 direct premium writings. The Company writes on a direct basis through independent agents located throughout the Company's territory.

C. Reinsurance

Assumed reinsurance accounted for 0.37% of the Company's gross premium written at December 31, 2008. During the period covered by this examination, the Company's assumed reinsurance business has slightly increased since the last examination. The Company's assumed reinsurance program consists mainly of participation in a casualty pool. The Company utilizes reinsurance accounting as defined in Statement of Statutory Accounting Principles ("SSAP") No. 62 for all of its assumed reinsurance business.

As of December 31, 2008, the Company had the following ceded reinsurance program in place:

<u>Treaty</u>	<u>Cession</u>
Property (2 layers)	\$2,000,000 in excess of \$500,000 ultimate net loss each risk any one loss occurrence; reinsurer's liability from all risks in each loss occurrence shall not exceed \$1,500,000 and \$4,500,000 for the first and second layers excess of loss, respectively.
Casualty (2 layers)	\$1,500,000 in excess of \$500,000 ultimate net loss each loss occurrence; reinsurer's liability with respect to any one loss occurrence shall not exceed \$500,000 and \$1,000,000 for the first and second layers excess of loss, respectively.

The Company had the following catastrophe excess of loss reinsurance program in effect at December 31, 2008:

Property (5 layers)	100% of \$24,250,000 in excess of the Company's ultimate net loss of \$750,000 in any one loss occurrence; reinsurer's liability shall not exceed \$750,000, \$3,500,000, \$5,000,000, \$5,000,000 and \$10,000,000 in any one loss occurrence for the first through fifth layers excess of loss, respectively.
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All reinsurance contracts in effect throughout the examination period were reinsured by an authorized reinsurer.

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 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 the NAIC Accounting Practices and Procedures Manual Statements of Statutory Accounting Principles (“SSAP”) No. 62. 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 paragraphs 26 and 27 of SSAP No. 62.

D. Holding Company System

The Company is not a member of any holding company system as of December 31, 2008. Furthermore, the Company had no affiliations or pooling agreements, except for that stated in Section 2. C. of this report, in force as at December 31, 2008.

E. Significant Operating Ratios

The following ratios have been computed as of December 31, 2008, based upon the results of this examination:

Net premiums written to surplus as regards policyholders	73%
Liabilities to liquid assets (cash and invested assets less investments in affiliates)	50%
Premiums in course of collection to surplus as regards policyholders	2%

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	\$ 72,243,819	39.64%
Other underwriting expenses incurred	73,296,051	40.21%
Net underwriting gain	<u>36,725,600</u>	<u>20.15%</u>
Premiums earned	<u>\$182,265,470</u>	<u>100.00%</u>

F. Accounts and Records

i. Compliance with SSAP No. 26 and the Annual Statement Instructions

(SSAP) No. 26 paragraph 2 defines bonds as “any securities representing a creditor relationship, whereby there is a fixed schedule for one or more future payments.” Included in the definition are Certificates of Deposit that have a fixed schedule of payments and maturity dates in excess of one year from date of acquisition. The NAIC Annual Statement Instructions require that bonds be valued and reported in accordance with the guidelines set forth in SSAP No. 26. Upon examination, it was found that the Company reported in Schedule E - Part 1 as cash a certificate of deposit which has a maturity term of five years from date of acquisition.

It is recommended that the Company comply with SSAP No. 26 and the annual statement instructions by reporting any certificate of deposit, with a maturity term in excess of one year from date of acquisition, as a bond in Schedule D - Part 1.

ii. Completion of Schedule E Part 3 of The Annual Statement

The Company maintains an investment, for the security of all policyholders of the Company pursuant to Section 1314 of the New York Insurance Law, with the Superintendent of Insurance. In accordance with the requirements of the NAIC Annual Statement Instructions, this investment should be reported in Schedule E Part 3 – Special Deposits of the filed annual statement.

On examination, it was found that the Company did not complete Schedule E Part 3 of the filed annual statements during the examination period. Therefore, it is recommended that the Company comply with the annual statement instructions by reporting, in Schedule E Part 3 of its annual statements, investments held pursuant to Section 1314 of the New York Insurance Law.

iii. Compliance with SSAP No. 62 and The Annual Statement Instructions

Schedule F Part 3 of the annual statements filed for the examination years indicated that, for each year, the Company reported at least one reinsurer with which unsecured reinsurance recoverables was in excess of three percent of the Company's reported surplus as regards policyholders. The SSAP No. 62 paragraph 68 and the annual statement instructions require that if an unsecured aggregate recoverable for losses, paid and unpaid including IBNR, loss adjustment expenses, and unearned premium, exceed three percent of an entity's policyholders surplus, each individual reinsurer and the unsecured aggregate recoverable pertaining to that insurer shall be disclosed in the annual statement.

Upon examination, it was noted that for each year of examination the Company had an unsecured reinsurance recoverable from a reinsurer in excess of three percent of its surplus as regards policyholders, yet no disclosures were made in the filed annual statements. Accordingly, it is recommended that the Company make the necessary disclosures regarding unsecured reinsurance recoverables in future filed annual statements to comply with SSAP No. 62 and the annual statement instructions.

iv. Letters of Qualification of Independent Auditor

Part 243.2(b)(7) of Department Regulation 152 states, in part, that:

“...an insurer shall maintain: A financial record necessary to verify the financial condition of an insurer...for six calendar years from its creation or until after the filing of the report on examination in which the record was subject to review, whichever is longer.”

Upon examination, it was found that the independent auditor's qualification letters addressed to the Company's board of directors during the period of examination contained retention requirements different than those put forth in Part 243.2(b) of Department Regulation 152.

During the course of the examination, the Company amended the wording of the letters of qualification; nevertheless, it is recommended that, in the future, the Company obtain letters of qualification from its independent auditors that comply with the requirements of Department Regulation 152.

v. Verification of Premium Receivable Aging for Compliance With SSAP No. 6

SSAP No. 6 paragraph 9 indicates the requirements for determining the non-admitted portion of Uncollected premiums and Agents' balances through the aging of premium receivables. On examination, the data file provided by the Company was such that the examiner was unable to age the premium receivables to determine the accuracy of the amount reported as non-admitted.

It is recommended that the Company establish procedures to generate from its system premium receivable reports in a form that will enable the future aging of premium receivables to be verified in accordance with SSAP No. 6.

vi. Check Issuing Procedures - Section 6611(a)(4)(C)

Section 6611(a)(4)(C) of the New York Insurance Law requires that all checks be signed either by two officers or one officer upon the written order of another officer, except as otherwise provided by a resolution of the corporation's board of directors or in its by-laws for the handling of miscellaneous expenses.

On examination, it was found that the Company's officers were not involved in the processing and authorization of claim payments less than \$75,000. The authorization for payment, check processing and authorization to generate electronic signatures for all claim payments less than \$75,000 were performed by adjusters and claim administrators, not officers of the Company. Therefore, it is recommended that the Company establish check-issuing procedures that will comply with Section 6611(a)(4)(C) of the New York Insurance Law. A similar recommendation was made in the prior examination report.

3. FINANCIAL STATEMENTS

A. Balance Sheet

The following shows the assets, liabilities and surplus as regards policyholders as of December 31, 2008 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	\$75,578,498	\$ 0	\$75,578,498
Preferred stocks	409,200	0	409,200
Common stocks	2,825,098	0	2,825,098
Real Estate: Properties occupied by the company	993,804	0	993,804
Cash, cash equivalents and short-term investments	4,720,713	0	4,720,713
Other invested assets	117,555	81,311	36,244
Aggregate write-ins for invested assets	621,091	0	621,091
Investment income due and accrued	1,027,730	0	1,027,730
Uncollected premiums and agents' balances in the course of collection	1,348,572	170,392	1,178,180
Deferred premiums, agents' balances and installments booked but deferred and not yet due	6,949,735	0	6,949,735
Amounts recoverable from reinsurers	856,169	0	856,169
Funds held by or deposited with reinsured companies	306,930	0	306,930
Current federal and foreign income tax recoverable and interest thereon	410,360	0	410,360
Net deferred tax asset	2,690,169	943,815	1,746,354
Electronic data processing equipment and software	132,475	0	132,475
Furniture and equipment, including health care delivery assets	643,891	643,891	0
Aggregate write-ins for other than invested assets	<u>6,538,423</u>	<u>100,000</u>	<u>6,438,423</u>
Total assets	<u>\$106,170,413</u>	<u>\$1,939,409</u>	<u>\$104,231,004</u>

Liabilities, Surplus and Other FundsLiabilities

Losses and loss adjustment expenses	\$22,554,059
Commissions payable, contingent commissions and other similar charges	4,427,265
Other expenses (excluding taxes, licenses and fees)	494,089
Taxes, licenses and fees (excluding federal and foreign income taxes)	28,614
Unearned premiums	20,856,235
Advance premium	194,830
Ceded reinsurance premiums payable (net of ceding commissions)	384,377
Amounts withheld or retained by company for account of others	<u>605,694</u>
Total liabilities	\$49,545,163

Surplus and Other Funds

Aggregate write-ins for special surplus funds	\$ 650,000
Surplus notes	6,000,000
Unassigned funds (surplus)	<u>48,035,841</u>
Surplus as regards policyholders	<u>54,685,841</u>
Total liabilities, surplus and other funds	<u>\$104,231,004</u>

NOTE: The Company issued a \$6,000,000 Section 1307 surplus note dated May 12, 2004 to a pooling vehicle, I-Preferred Term Securities IV, Ltd, a Cayman Island limited liability corporation. The note has a maturity date of May 12, 2034. The note accrues interest at the London Inter-Bank Overnight Rate (LIBOR) plus 3.8%. The terms of the surplus note were approved by the Department on April 22, 2004.

The surplus note is subject to the provisions of Section 1307 of the New York Insurance Law and as such the payment of principal and interest under the note requires the prior approval of the Superintendent of the New York Insurance Department. The amount of the surplus note shall not be part of the legal liabilities of the Company.

The Internal Revenue Service has not yet begun to audit tax returns covering tax years 2004 through 2008. 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 \$37,639,376 during the five-year examination period January 1, 2004 through December 31, 2008, detailed as follows:

Underwriting Income

Premiums earned		\$182,265,470
Deductions:		
Losses and loss adjustment expenses incurred	\$72,243,819	
Other underwriting expenses incurred	<u>73,296,051</u>	
Total underwriting deductions		<u>145,539,870</u>
Net underwriting gain or (loss)		\$ 36,725,600

Investment Income

Net investment income earned	\$9,749,777	
Net realized capital losses	<u>(852,876)</u>	
Net investment gain or (loss)		8,896,901

Other Income

Net gain or (loss) from agents' or premium balances charged off	\$ (402,819)	
Finance and service charges not included in premiums	2,676,418	
Aggregate write-ins for miscellaneous income	<u>53,529</u>	
Total other income		<u>2,327,128</u>
Net income before federal and foreign income taxes		\$ 47,949,629
Federal and foreign income taxes incurred		<u>16,062,148</u>
Net income		<u>\$ 31,887,481</u>

Surplus as regards policyholders per report on examination as of December 31, 2003			\$ 17,046,465
	<u>Gains in Surplus</u>	<u>Losses in Surplus</u>	
Net income	\$31,887,481		
Net unrealized capital gains or losses		\$1,122,470	
Change in net deferred income tax	1,336,895		
Change in nonadmitted assets		1,076,437	
Change in surplus notes	6,000,000		
Aggregate write-ins for gains and losses in surplus	<u>613,907</u>	<u>0</u>	
Total gains and losses	<u>\$39,838,283</u>	<u>\$2,198,907</u>	
Net increase (decrease) in surplus			<u>37,639,376</u>
Surplus as regards policyholders per report on examination as of December 31, 2008			<u>\$ 54,685,841</u>

4. LOSSES AND LOSS ADJUSTMENT EXPENSES

The examination liability for the captioned items of \$22,554,059 is the same as reported by the Company as of December 31, 2008. The examination analysis 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 six recommendations as follows (page numbers refer to the prior report):

<u>ITEM</u>	<u>PAGE NO.</u>
A. <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.	8

The Company has complied with this recommendation.

ITEMPAGE NO.

- 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 purchases and sales of 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. 9

The company has complied with this recommendation.

- iii. It was recommended that the Company comply with SSAP No. 40 paragraph 15 henceforth and charge itself an amount in rent that is comparable to rent received from others and or rental rates of like property in the same area, if this is not available, the rent amount should be derived from a consideration of the repairs, expenses, taxes and depreciation incurred, plus interest added at an average fair rate on the carrying value of the reporting entity's investment in its home office building. 10

The Company has complied with this recommendation.

- iv. It was recommended that the Company comply with Section 6611(a)(4)(C) of the New York Insurance Law, regarding check-signing authorization. 10

The Company has not complied with this recommendation. A similar recommendation is made in this report.

B. Market Conduct Activities

- i. It was recommended that the Company comply with all the requirements of Regulation 90 (NYCRR Part 218.4(b) and 218.5) and make sure the redlining notice is prominently set out in boldface type on the front of the termination letter sent to agents as required by Part 218.5 and give at least 30 days notice prior to contract termination as required by Part 218.4(b). 15

The Company has complied with this recommendation.

- ii. It was recommended that the Company comply with Part 216.4(e) of Regulation 64 and Circular Letter No. 11 (1978) and include all complaints filed with the Company in the complaint log, as well as maintain a complete complaint log by including all columns. 16

The Company has complied with this recommendation.

6. SUMMARY OF COMMENTS AND RECOMMENDATIONS

<u>ITEM</u>	<u>PAGE NO.</u>
A. <u>Management</u>	
It is recommended that the Company maintain minutes of proceedings of all principal board committee meetings to comply with Section 6611(a)(3) of the New York Insurance Law.	4
B. <u>Accounts and Records</u>	
i. It is recommended that the Company comply with SSAP No. 26 and the annual statement instructions by reporting any certificate of deposit, with a maturity term in excess of one year from date of acquisition, as a bond in Schedule D - Part 1.	8
ii. It is recommended that the Company comply with the annual statement instructions by reporting, in Schedule E Part 3 of its annual statements, investments held pursuant to Section 1314 of the New York Insurance Law.	8
iii. It is recommended that the Company make the necessary disclosures regarding unsecured reinsurance recoverables in future filed annual statements to comply with SSAP No. 62 and the annual statement instructions.	9
iv. It is recommended that, in the future, the Company obtain letters of qualification from its independent auditors that comply with the requirements of Department Regulation 152.	9
v. It is recommended that the Company establish procedures to generate from its system premium receivable reports in a form that will enable the future aging of premium receivables to be verified in accordance with SSAP No. 6.	10
vi. It is recommended that the Company establish check-issuing procedures that will comply with Section 6611(a)(4)(C) of the New York Insurance Law. A similar recommendation was made in the prior examination report.	10

Appointment No 30300

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:

NYANTAKYI AKUOKO

as proper person to examine into the affairs of the

DRYDEN MUTUAL 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 4th day of March 2009



A handwritten signature in black ink that reads "Eric R. Dinallo".

ERIC R.DINALLO
Superintendent of Insurance