

REPORT ON EXAMINATION

OF THE

MEREDITH INSURANCE COMPANY

AS OF

DECEMBER 31, 2013

DATE OF REPORT

JUNE 24, 2014

EXAMINER

LAMIN JAMMEH

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NEW YORK STATE
DEPARTMENT *of*
FINANCIAL SERVICES

Andrew M. Cuomo
Governor

Benjamin M. Lawsky
Superintendent

June 24, 2014

Honorable Benjamin M. Lawsky
Superintendent of Financial Services
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 31113 dated February 11, 2014, attached hereto, I have made an examination into the condition and affairs of Meredith Insurance Company as of December 31, 2013, and submit the following report thereon.

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

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 357 Kelso Road, East Meredith, NY 13757.

1. SCOPE OF EXAMINATION

The Department has performed an individual examination of the Company, a single-state insurer. The previous examination was conducted as of December 31, 2008. This examination covered the five year period from January 1, 2009 through December 31, 2013. 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 report includes a summary of significant findings for the following items as called for in the Handbook:

- Significant subsequent events
- Company history
- Corporate records
- 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

Meredith Insurance Company was organized in February 20, 1862 for the purpose of transacting business as an assessment co-operative fire insurance company in the Town of Meredith, Delaware County, New York.

As of January 12, 1993, the Company's charter and license were amended to extend the territories in which the Company writes to include all the counties of New York State, excluding the counties of New York, Kings, Queens, Bronx, and Richmond.

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. The board meets six times during each calendar year. At December 31, 2013, the board of directors was comprised of the following ten members:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
John Bramley Delhi, NY	Vice President, Meredith Insurance Company
Bryan Boyer Delhi, NY	Vice President, Delaware National Bank of Delhi
Jean Humphries Delhi, NY	Insurance Agency Employee
Carolyn June Delhi, NY	Mental Health Case Manager
Barbara MacClintock East Meredith, NY	Secretary and Treasurer, Meredith Insurance Company
Michael MacClintock East Meredith, NY	Facilities Manager, Community Bank
Herman Menke Treadwell, NY	Retired
Terry Mostert East Meredith, NY	Vice President, Delaware National Bank of Delhi

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Bette B. Shaw Delhi, NY	Retired
Joan Tubridy Delhi, NY	Teacher

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.

As of December 31, 2013, the principal officers of the Company were as follows:

<u>Name</u>	<u>Title</u>
Bette Shaw	President
Barbara MacClintock	Secretary and Treasurer
John Bramley	Vice President
Michael MacClintock	Vice President
Terry Mostert	Vice President

B. Territory and Plan of Operation

As of December 31, 2013, the Company was licensed as an assessment cooperative insurance company to transact business within all the counties of New York State, except the counties of New York, Kings, Queens, Bronx and Richmond

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

Paragraphs 5, 6, 7, and 8 can be written solely in conjunction with fire insurance written under the same policy and covering the same premises. The Company is also licensed to accept and cede reinsurance as provided in Section 6606 of the Insurance Law of the State of New York.

Based on the lines of business for which the Company is licensed and pursuant to the requirements of Articles 13 and 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 following schedule shows the direct premiums written by the Company for the period under examination:

<u>Calendar Year</u>	<u>Total Direct Written Premiums</u>
2009	\$38,299
2010	\$39,262
2011	\$37,096
2012	\$34,765
2013	\$32,904

The Company writes predominantly in Delaware County, New York through its director-agents. Policies are issued for a term of three years covering farms, residential, and commercial risks, including contents, livestock, produce and machinery. Policies are issued against specified perils that include fire and windstorm. Applications for insurance are received by directors of the Company and all risks are inspected at least every three years on or prior to the renewal dates of the policies.

C. Reinsurance

The Company did not assume any reinsurance during the period covered by this examination. As of December 31, 2013, the Company had the following ceded reinsurance program in place:

<u>Type of Treaty</u>	<u>Cession</u>
Property	\$70,000 excess of \$14,000 ultimate net loss, each loss, each risk, subject to a limit of liability to the Reinsurer of \$210,000 each loss occurrence.
Windstorm Catastrophe	100% of the ultimate net loss over and above an ultimate net loss equal to 10% of the Company's policyholder's surplus. However, no claim shall be made hereunder unless the loss occurrence involves three or more risks.

All reinsurance contracts in effect throughout the examination period were with authorized reinsurers.

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

Examination review found that the Schedule F data reported by the Company in its filed annual statement accurately reflected its reinsurance transactions. Additionally, management has represented that all material ceded reinsurance agreements transfer both underwriting and timing risk as set forth in SSAP No. 62R. Representations were supported by an attestation from the Company's Vice President and Secretary/Treasurer pursuant to the NAIC Annual Statement Instructions. All ceded reinsurance agreements were accounted for utilizing reinsurance accounting as set forth in SSAP No. 62R.

Examination review found that the Company is ceding more than 50% of its premiums written. The Company has received approval to do so, pursuant to the provisions of Section 1308(e)(1) of the New York Insurance Law.

D. Holding Company System

The Company is not a member of any holding company system. As of December 31, 2013, the Company was independent with no affiliations.

E. Significant Operating Ratios

The following ratios have been computed as of December 31, 2013, based upon the results of this examination:

Net premiums written to surplus as regards policyholders	2%
Liabilities to liquid assets (cash and invested assets less investments in affiliates)	4%
Premiums in course of collection to surplus as regards policyholders	0%

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	\$ 50,512	44.38%
Other underwriting expenses incurred	203,629	178.91
Net underwriting loss	<u>(140,326)</u>	<u>(123.29)</u>
Premiums earned	<u>\$113,815</u>	<u>100.00%</u>

F. Accounts and Records

i. Compliance with the NAIC Annual Statement Instructions

Upon review of the Schedule D, Part 1 contained in the Company's 2013 annual statement, it was noted that the Company reported incorrect NAIC designations for its bonds held. It is recommended that the Company accurately complete Schedule D of its filed annual statements in compliance with the NAIC Annual Statement Instructions.

ii. Recording of bond acquisition dates

A review of broker's advices for securities purchased during the examination period indicated that the Company reported the settlement date as the date of acquisition of securities in its Schedule D of its annual statement. Pursuant to paragraph 4 of SSAP No. 26, "a bond acquisition or disposal shall be recorded on the trade date, not settlement date..." It is recommended that the Company report the trade date as the date of acquisition of securities in Schedule D, pursuant to paragraph 4 of SSAP No. 26.

3. FINANCIAL STATEMENTS

A Balance Sheet

The following shows the assets, liabilities and surplus as regards policyholders as of December 31, 2013 as determined by this examination and as reported by the Company:

<u>Assets</u>	<u>Assets</u>	<u>Examination</u>	
		<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>
Bonds	\$945,014	\$0	\$945,014
Cash, cash equivalents and short-term investments	<u>54,860</u>	<u>0</u>	<u>54,860</u>
Total assets	<u>\$999,874</u>	<u>0</u>	<u>\$999,874</u>
Liabilities, surplus and other funds		<u>Examination</u>	
Losses and loss adjustment expenses			\$ 10,702
Unearned premiums			<u>24,856</u>
Total liabilities			\$ <u>35,558</u>
Gross paid in and contributed surplus			0
Unassigned funds (surplus)			<u>964,316</u>
Surplus as regards policyholders			<u>\$964,316</u>
Total liabilities, surplus and other funds			<u>\$999,874</u>

Note: The Internal Revenue Service has not yet begun to audit tax returns covering tax years 2009 through 2013. 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 \$1,022 during the five-year examination period January 1, 2009 through December 31, 2013, detailed as follows:

Underwriting Income

Premiums earned		\$113,815
Deductions:		
Losses and loss adjustment expenses incurred	\$ 50,512	
Other underwriting expenses incurred	<u>203,629</u>	
Total underwriting deductions		<u>254,141</u>
Net underwriting gain or (loss)		\$(140,326)
<u>Investment Income</u>		
Net investment income earned	\$ <u>139,900</u>	
Net investment gain or (loss)		\$139,900
<u>Other Income</u>		
Aggregate write-ins for miscellaneous income	\$ <u>1,094</u>	
Total other income		\$ <u>1,094</u>
Net Income		\$ <u>668</u>

Surplus as regards policyholders per report on examination as of December 31, 2008		\$963,294
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	<u>Gains in Surplus</u>	<u>Losses in Surplus</u>	
Net income	\$ 668	\$0	
Net unrealized capital gains or (losses)	<u>354</u>	<u>0</u>	
Net increase (decrease) in surplus	\$ <u>1,022</u>	\$ <u>0</u>	\$ <u>1,022</u>
Surplus as regards policyholders per report on examination as of December 31, 2013			\$ <u>964,316</u>

4. LOSSES AND LOSS ADJUSTMENT EXPENSES

The examination liability for the captioned items of \$10,702 is the same as reported by the Company as of December 31, 2013. The examination analysis was based on a review of the Company's loss register and filed annual statements to determine the existence of any outstanding claims and any trends in the reporting of incurred but not reported losses.

5. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

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

<u>ITEM</u>	<u>PAGE NO.</u>
<p>A <u>Management</u> It was recommended that henceforth, the directors of the Company remain mindful of their fiduciary responsibilities to the Company and its policyholders as set forth in Section 717(a) of the NYBCL. In addition, it was recommended that the Company comply with its by-laws and allow only qualified members to serve on the board</p> <p>The Company has complied with this recommendation.</p>	<p>4</p>
<p>B <u>Reinsurance</u> It was recommended that, in the future, the Company submit its reinsurance contracts in effect as well as any new contracts and any amendments thereto for review in accordance with Section 1308(e)(1)(A) of the New York Insurance Law.</p> <p>The Company has complied with this recommendation</p>	<p>6-7</p>
<p>C <u>Accounts and Records</u> i. It was recommended that the Company comply with SSAP No. 2 and report as cash, certificates of deposit with maturity dates within one year or less from the date of acquisition.</p> <p>The Company has complied with this recommendation</p>	<p>8</p>
<p>ii. It was recommended that the Company comply with the annual statement instructions and accurately complete Schedule D of the annual statement and all other schedules and exhibits.</p>	<p>8</p>

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

- iii. It was recommended that the Company comply with SSAP No. 26 and record the trade date as the acquisition date for each applicable bond reported in Schedule D of the annual statement. 8

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

6. SUMMARY OF COMMENTS AND RECOMMENDATIONS

ITEMPAGE NO.

- A Accounts and Records
- i. It is recommended that the Company accurately complete Schedule D of its filed annual statements in compliance with the NAIC Annual Statement Instructions. 7
- ii. It is recommended that the Company report the trade date as the date of acquisition of securities in Schedule D, pursuant to paragraph 4 of SSAP No. 26. 7

Respectfully submitted,

_____/s/
Lamin Jammeh
Senior Insurance Examiner

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

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

_____/s/
Lamin Jammeh

Subscribed and sworn to before me

this _____ day of _____, 2014.

APPOINTMENT NO. 31113

NEW YORK STATE

DEPARTMENT OF FINANCIAL SERVICES

I, **BENJAMIN M. LAWSKY**, Superintendent of Financial Services of the State of New York, pursuant to the provisions of the Financial Services Law and the Insurance Law, do hereby appoint:

Lamin Jammeh

as a proper person to examine the affairs of the

Meredith Insurance Company

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

COMPANY

with such other information as he shall deem requisite.

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

this 11th day of February, 2014

BENJAMIN M. LAWSKY
Superintendent of Financial Services

By:



Rolf Kaumann
Deputy Chief Examiner

