REPORT ON EXAMINATION

OF THE

MADISON MUTUAL INSURANCE COMPANY

AS OF

DECEMBER 31, 2006

DATE OF REPORT	MARCH 7, 2008
EXAMINER	FRANK P. SCHIRALDI

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

March 7, 2008

Mr. Eric R. Dinallo
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 22680 dated November 14, 2007 attached hereto, I have made an examination into the condition and affairs of Madison Mutual Insurance Company as of December 31, 2006, and submit the following report thereon.

Wherever the designations “the Company” or “MMIC” appear herein without qualification, they should be understood to indicate Madison 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 1256 State Route 5, Chittenango, NY 13037.

1. SCOPE OF EXAMINATION

The previous examination was conducted as of December 31, 2001. This examination covered the five-year period from January 1, 2002 through December 31, 2006. Transactions occurring subsequent to this period were reviewed where deemed appropriate by the examiner.

The examination comprised a verification of assets and liabilities as of December 31, 2006. The examination included a review of income, disbursements and company records deemed necessary to accomplish such analysis or verification and utilized, to the extent considered appropriate, work performed by the Company's independent certified public accountants ("CPA"). A review or audit was also made of the following items as called for in the Examiners Handbook of the National Association of Insurance Commissioners ("NAIC"):

History of Company
Management and control
Corporate records
Fidelity bond and other insurance
Territory and plan of operation
Growth of Company
Loss experience
Reinsurance
Accounts and records
Financial statements
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

Madison Mutual Insurance Company was incorporated under the laws of the State of New York on January 30, 1893 for the purpose of transacting business as an assessment co-operative fire insurance company in Madison and Onondaga Counties in New York State.

The Company has acquired, through merger, the Herkimer Co-operative Insurance Association, on January 1, 1983 and Patrons' Fire Relief Association of Madison County, on January 1, 1986, with Madison Mutual Insurance Company being the surviving corporation in both mergers.

Effective January 1, 1987, the Department approved the extension of the writing powers of this assessment co-operative property/casualty insurance corporation to include the kinds of insurance specified in subsections (a) and (b) of Section 6605 of the New York Insurance Law.

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 twenty-five members. The board meets four times during each calendar year. At December 31, 2006, the board of directors was comprised of the following eleven members:

Name and Residence	Principal Business Affiliation
Timothy D. Burback Waterville, NY	President and Chief Executive Officer Madison Mutual Insurance Company
Lawrence R. Cary Canastota, NY	Secretary and Treasurer Madison Mutual Insurance Company
Christine J. Coe Canastota, NY	Office Assistant Syracuse University
William P. Conley Dewitt, NY	Retired
Lawrence A. DeMellier, Jr. Cazenovia, NY	Retired
Daniel G. Frey Chittenango, NY	Chairman of the Board Madison Mutual Insurance Company

Name and Residence	Principal Business Affiliation
Alan R. Laube Chittenango, NY	Tax Accountant Alan Laube and Associates
Harold E. Oot Kirkville, NY	President Seven O's, Inc.
DeAlton J. Ridings Cazenovia, NY	Retired
Janice M. Sax Cicero, NY	Broker/Manager Potter Emergency Insurance Services
Robert C. Wheeler Middleville, NY	Retired

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, 2006, the principal officers of the Company were as follows:

Name	Title
Daniel G. Frey	Chairman of the Board
Timothy D. Burback	President
Lawrence R. Cary	Secretary and Treasurer
John C. Owens	Vice President
Heidi K. Barron	Assistant Vice President

B. Territory and Plan of Operation

As of December 31, 2006, the Company was licensed to transact business within all counties of New York State excluding 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:

Paragraph	Line of Business
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
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)

Paragraphs 5, 6, 7, 8, 13, 14 and 15 can be written solely in conjunction with fire insurance written under the same policy and covering the same premises. The Company is also authorized to accept and cede reinsurance as provided in Section 6606 of the New York Insurance Law.

The following schedule shows the direct premiums written by the Company in New York State for each year of the examination:

Calendar Year	Direct Premiums Written
2002	$3,646,861
2003	$4,023,011
2004	$4,241,528
2005	$4,056,313
2006	$4,033,701

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 Company underwrote predominantly homeowners multiple peril and commercial multiple peril lines of business, which accounted for 43.9% and 43.7% of the 2006 direct written premium.

The Company obtains business through approximately 93 producers at December 31, 2006.

C. Reinsurance

During the current period under examination the Company did not assume any reinsurance.

As of December 31, 2006, the Company had the following ceded excess of loss reinsurance program in place:

Property (2 layers)	\$500,000 excess of \$100,000, each loss, each risk, subject to a limit of liability to the reinsurer of \$600,000 each loss occurrence (1st layer), \$900,000 each loss occurrence (2nd layer)
Casualty (2 layers)	\$900,000 excess of \$100,000, each loss occurrence
Casualty (clash)	\$2,000,000 excess of \$1,000,000, each loss occurrence

At December 31, 2006, the Company had the following property catastrophe excess program in place:

Property (1st layer)	95% of \$800,000 excess of \$200,000, each loss occurrence
Property (2nd layer)	100% excess of \$1,000,000 each loss occurrence

As of December 31, 2006, the Company had the following aggregate reinsurance program in place:

Property	90% of the amount, if any, by which the Company’s aggregate net losses for any contract year exceed an amount equal to 67% of the Company’s net earned premium income during such contract year, subject to a maximum recovery of 90% of \$1,000,000, being \$900,000 aggregate net losses any one contract year

As of December 31, 2006, the Company also had the following facultative reinsurance program in place:

Property	Five times the Company's net retention, subject to a minimum net retention of $300,000 and a maximum cession of $1,500,000 on any one risk covered
Casualty	100% of the ultimate net loss over and above an initial ultimate net loss of $1,000,000 each loss occurrence, each policy, subject to a limit of liability of $1,000,000 each loss occurrence each policy

As of December 31, 2006, the Company ceded 100% of its boiler and machinery net retained liability.

Since the last examination, the Company has increased its net retention by $45,000 to $100,000 for property business and $75,000 to $100,000 for casualty business. At December 31, 2006, all reinsurance was placed with authorized reinsurers only.

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 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 SSAP No. 62. Representations were supported by appropriate risk transfer analyses and an attestation from the Company's President and Treasurer 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 17 through 26 of SSAP No. 62.

D. Holding Company System

As of December 31, 2006, the Company was not a member of any holding company system. The Company was independent with no affiliation or pooling agreements in force at December 31, 2006.

E. Significant Operating Ratios

The following ratios have been computed as of December 31, 2006, based upon the results of this examination:

Net premiums written to surplus as regards policyholders	50.33%
Liabilities to liquid assets (cash and invested assets less investments in affiliates)	37.68%
Premiums in course of collection to surplus as regards policyholders	1.00%

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:

	Amounts	Ratios
Losses and loss adjustment expenses incurred	$10,892,411	68.51%
Other underwriting expenses incurred	6,304,523	39.66 %
Net underwriting loss	(1,299,120)	(8.17)%
Premiums earned	$15,897,814	100.00%

F. Accounts and Records

i. Certified Public Accountant Engagement Letter

A review of the written contracts entered into by the Company and its independent certified public accountant, for each year under examination, revealed that such contracts did not conform with all of the provisions of Department Regulation 118, Section 89.2.

It is recommended that the Company ensure that the contract entered into with its independent Certified Public Accountants is in full compliance with Department Regulation 118.

Subsequent to the examination date, but during the course of the examination field work, the Company entered into an agreement with its current independent certified public accountant that meets the requirements of Department Regulation No. 118.

ii. Advance premium and Remittances and items not allocated

During the course of the examination, the Company could not produce the detail for advance premium.

Regulation 152, Section 243.2(b)(7) 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."

It is recommended that the Company comply with Regulation 152, Section 243.2(b)(7) and maintain all records necessary to verify the amount reported as advance premium in all future financial statements filed with this Department, for the required period of time.

Upon further review, it was noted that the Company included cash receipts for deposits as part of the liability for advance premium, and it was also noted that when policyholders overpaid the premium amounts that they owed to the Company, that the Company recorded this overpayment as a reduction in the asset for premiums and considerations due on line 13 of the 2006 annual statement.

SSAP No. 67, paragraph 9 specifically requires that such overpayments and deposits be included as a liability, Remittances and items not allocated.

It is recommended that the Company comply with SSAP No. 67, paragraph 9 and report all deposits received for policies not yet written and overpayment amounts not yet returned to the policyholder as Remittances and items not allocated.

iii. Allocation of expenses

The Company allocated each of the expenses on lines 8 through 18 of Part 3 – Expenses of the Underwriting and Expense Exhibit to the major expense groups primarily on the basis of a time study done prior to this examination period. The percentages used did not exactly match this study and the Company could not document the reason for the adjustments made to the percentages per the prior time study.

SSAP No. 70, paragraph 9 states, in part, that "any basis adopted to apportion expenses shall be that which yields the most accurate results…"

Due to the lack of supporting documentation the examination is unable to determine whether the expenses are apportioned accurately, and in compliance with SSAP No. 70.

It is recommended that Management establish and maintain written documentation supporting the allocation of each expense category to the major expense groups so that compliance with SSAP No. 70, paragraph 9 may be determined.

iv. Non-admitted installment premiums

Upon examination, it was noted that when an installment premium was over 90 days due, the Company failed to non-admit future installments that have been recorded for that policy.

Pursuant to SSAP No. 6, paragraph 9(a), if an installment premium is over ninety days due, the amount over ninety days due plus all future installments that have been recorded on that policy shall be non-admitted.

It is recommended that the Company comply with SSAP No. 6, paragraph 9(a) and non-admit the amount of the installment premium over ninety days due plus all future installments recorded on that policy, in all future statements filed with this Department.

Due to the immaterial affect of this error, no financial change was made to this account.

3. FINANCIAL STATEMENTS

A. Balance Sheet

The following shows the assets, liabilities and surplus as regards policyholders as of December 31, 2006. This statement is the same as the balance sheet filed by the Company.

Assets	Assets	Assets Not Admitted	Net Admitted Assets
Bonds	$ 7,678,475	$ 0	$ 7,678,475
Preferred stocks	156,156	0	156,156
Common stocks	523,753	0	523,753
Properties occupied by the company	427,123	0	427,123
Cash, cash equivalents and short-term investments	1,064,917	0	1,064,917
Other invested assets	4,000	4,000	0
Investment income due and accrued	73,081	0	73,081
Uncollected premiums and agents' balances in the course of collection	78,510	4,991	73,519
Deferred premiums, agents' balances and installments booked but deferred and not yet due	365,056	0	365,056
Current federal and foreign income tax recoverable and interest thereon	9,939	0	9,939
Net deferred tax asset	203,900	30,800	173,100
Furniture and equipment, including health care delivery assets	45,839	45,839	0
Totals	$10,630,749	$85,630	$10,545,119

Liabilities, surplus and other funds

Losses and loss adjustment expenses	$ 1,507,380
Commissions payable, contingent commissions and other similar charges	110,393
Other expenses (excluding taxes, licenses and fees)	166,043
Taxes, licenses and fees (excluding federal and foreign income taxes)	2,770
Unearned premiums	2,045,851
Advance premium	94,183
Ceded reinsurance premiums payable (net of ceding commissions)	17,018
Total liabilities	$ 3,943,638
Minimum required surplus	$ 100,000
Unassigned funds (surplus)	6,501,481
Surplus as regards policyholders	$ 6,601,481
Totals	$10,545,119

Note: The Internal Revenue Service did not audit the Company's federal income tax returns during the period under examination. Audits covering subsequent tax years have yet to commence. The examiner is unaware of any potential exposure to the Company to any further tax assessment and no liability has been established herein relative to such contingency.

B. Underwriting and Investment Exhibit

Surplus as regards policyholders increased $574,509 during the five-year examination period January 1, 2002 through December 31, 2006, detailed as follows:

Underwriting Income		
Premiums earned		$15,897,814
Deductions:		
Losses and loss adjustment expenses incurred	$10,892,411	
Other underwriting expenses incurred	6,304,523	
Aggregate write-ins for underwriting deductions	0	
Total underwriting deductions		17,196,934
Net underwriting gain or (loss)		$(1,299,120)
Investment Income		
Net investment income earned	$ 1,543,070	
Net realized capital gain	175,618	
Net investment gain or (loss)		$ 1,718,688
Other Income		
Net gain or (loss) from agents' or premium balances charged off	$ 14,410	
Finance and service charges not included in premiums	345,173	
Aggregate write-ins for miscellaneous income	5,441	
Total other income		$ 365,024
Net income before dividends to policyholders and before federal and foreign income taxes		$ 784,592
Dividends to policyholders		0
Net income after dividends to policyholders but before federal and foreign income taxes		$ 784,592
Federal and foreign income taxes incurred		140,061
Net Income		$ 644,531

	Gains in Surplus	Losses in Surplus	
Surplus as regards policyholders per report on examination as of December 31, 2001			$6,026,972
Net income	$644,531	$ 0	
Net unrealized capital gains or (losses)		74,128	
Change in net deferred income tax	85,700		
Change in non-admitted assets	147,085		
Cumulative effect of changes in accounting principles	0	228,679	
Net increase (decrease) in surplus	$877,316	$302,807	$ 574,509
Surplus as regards policyholders per report on examination as of December 31, 2006			$6,601,481

4. LOSSES AND LOSS ADJUSTMENT EXPENSES

The examination liability for the captioned items of $1,507,380 is the same as reported by the Company as of December 31, 2006. The examination analysis of the loss and loss adjustment expense reserve 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.

It is noted that subsequent to the examination field work, the Company's reported fifteen month runoff, including Adjusting and Other expenses, for accident years 2006 and prior, shows a deficiency of $80,000. The deficiency noted is not considered material and therefore no examination change was made to the financial statements presented in this report.

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

No problem areas were encountered.

6. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

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

ITEM			PAGE NO.
A.		Annual Statement	
	i.	It was recommended that the Company properly report Schedule F Part 8 in all future annual statements submitted to this Department.	7
		The Company has complied with this recommendation.	
	ii.	It was recommended that the Company properly record long term certificates of deposits as bonds in future financial statements submitted to this Department.	7
		The Company has complied with this recommendation.	

7. SUMMARY OF COMMENTS AND RECOMMENDATIONS

ITEM		PAGE NO.
A.	Accounts and Records	
	i. It is recommended that the Company ensure that the contract entered into with its independent Certified Public Accountants is in full compliance with Department Regulation 118.	9
	ii. It is recommended that the Company comply with Regulation 152, Section 243.2(b)(7) and maintain all records necessary to verify the amount reported as advance premium in all future financial statements filed with this Department, for the required period of time.	9
	iii. It is recommended that the Company comply with SSAP No. 67, paragraph 9 and report all deposits received for policies not yet written and overpayment amounts not yet returned to the policyholder as Remittances and items not allocated.	10
	iv. It is recommended that Management establish and maintain written documentation supporting the allocation of each expense category to the major expense groups so that compliance with SSAP No. 70, paragraph 9 may be determined.	10
	v. It is recommended that the Company comply with SSAP No. 6, paragraph 9(a) and non-admit the amount of the installment premium over ninety days due plus all future installments recorded on that policy, in all future statements filed with this Department.	10

Respectfully submitted,

_____________/S/____________
Frank P. Schiraldi
Senior Insurance Examiner

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

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

_____________/S/____________
Frank P. Schiraldi

Subscribed and sworn to before me

this__________ day of ___________________, 2008.

Appointment No 22680

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:*

Frank Schiraldi

as proper person to examine into the affairs of the

Madison 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 14 *day of* November 2007

STATE OF NEW YORK ★ SUPERINTENDENT OF INSURANCE ★ EXCELSIOR

ERIC R DINALLO
Superintendent of Insurance