



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

George E. Pataki  
Governor

Gregory V. Serio  
Superintendent

REPORT ON EXAMINATION  
OF THE  
MADISON MUTUAL INSURANCE COMPANY  
AS OF  
DECEMBER 31, 2001

DATE OF REPORT:

SEPTEMBER 19, 2002

EXAMINER:

ROBERT W. CLARK

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Honorable Gregory V. Serio  
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 21907 dated June 11, 2002, attached hereto, I have made an examination into the condition and affairs of the Madison Mutual Insurance Company as of December 31, 2001 and submit the following report thereon.

The examination was conducted at the Company's home office located at 1256 W. Genesee Street, Chittenango, New York 13057-0357.

Wherever the designations "the Company" or "MMIC" appear herein without qualification, they should be understood to indicate the Madison Mutual Insurance Company.

## 1. SCOPE OF EXAMINATION

The prior examination was conducted as of December 31, 1996. This examination covers the five-year period from January 1, 1997 through December 31, 2001, and was limited in its scope to a review or audit of only those balance sheet considered by this Department to require analysis, verification or description including: invested assets, inter-company balances, loss and loss adjustment expense reserves and the provisions for reinsurance. 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 public accountants.

A review was also made to ascertain what action was taken by the Company with regard to comments and recommendations in the prior report on examination.

## 2. DESCRIPTION OF COMPANY

The Company was organized 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 the 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 and not more than twenty-five members. The board met four times during each calendar year under review. As of the examination date, the board of directors was comprised of 12 members. The directors as of December 31, 2001 were as follows:

<u>Director</u>	<u>Principal Business Affiliation</u>
Timothy D. Burback Waterville, NY	President and Chief Executive Officer, MMIC
Lawrence R. Cary Canastota, NY	Secretary and Treasurer, MMIC
William P. Conley DeWitt, NY	Retired
Lawrence A. DeMellier, Jr. Cazenovia, NY	Retired
Robert H. Fisher Cazenovia, NY	Retired
Daniel G. Frey Chittenango, NY	Chairman of the Board, MMIC
Harold E. Oot Kirkville, NY	Recreational vehicle dealer
Robert N. Potter Cicero, NY	Vice Chairman of the Board and Vice President, MMIC
Ethelyn H. Richards Chittenango, NY	Retired
DeAlton J. Ridings Cazenovia, NY	Retired
Harvey A. Stevens Clayton, NY	Retired
Robert C. Wheeler Middleville, NY	Retired

The minutes of all the meetings of the Board of Directors and committees thereof held during the examination period were reviewed. The average attendance by the board of directors during the examination period was approximately 98%, with each individual directors' attendance being adequate at these meetings.

At December 31, 2001 the principal officers of the Company and their respective titles were as follows:

Daniel G. Frey	Chairman of the Board
Timothy D. Burbach	President and Chief Executive Officer
Robert N. Potter	Vice Chairman of the Board
John C. Owens, Jr.	Vice President
Heidi K. Barron	Assistant Vice President
Lawrence R. Cary	Secretary & Treasurer
Naomi S. Ondrich	Controller-Actuary

#### B. Territory and Plan of Operation

At December 31, 2001, the Company was authorized to transact business within all the counties of New York State excluding the counties of New York, Kings, Queens, Bronx and Richmond. The Company writes in New York State only. The following schedule shows the direct written premiums for each year of the examination period:

<u>Calendar Year</u>	<u>Direct Premiums Written</u>
1997	\$2,607,617
1998	2,679,706
1999	2,816,141
2000	2,805,920
2001	3,102,837

As of December 31, 2001, the Company was authorized to transact the kinds of insurance defined in the following numbered paragraphs of Section 1113(a) of the New York Insurance Law:

<u>Paragraph</u>	<u>Kinds of Business</u>
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 (employers' liability only)
19	Motor vehicle and aircraft physical damage (motor vehicle only)
20	Marine and inland marine

The Company was also licensed as of December 31, 2001, to accept and cede reinsurance as provided in Section 6606 of the New York Insurance Law.

Based upon the lines of business, for which the Company is licensed, the Company is required to maintain minimum surplus investments in the amount of \$100,000.

The Company obtains business through approximately 85 producers as of December 31, 2001.

### C. Reinsurance

The Company assumes reinsurance from non-affiliates as of December 31, 2001.

The Schedule F's as contained in the Company's annual statements filed for the years within the examination period were found to accurately reflect its reinsurance transactions except as noted. It is noted that the first comment of "G. Annual Statements" of this report indicates a departure from the reporting requirements for Schedule F-Part 8.

The examiner reviewed all ceded reinsurance contracts effect at December 31, 2001. These contracts all contained the required standard clauses, including insolvency clauses, meeting the requirements of Section 1308 of the New York Insurance Law.

As of the examination date, the Company had the following excess of loss reinsurance program in place:

Property(3 Layers)	\$545,000 x/s \$55,000 each risk, each loss subject to loss occurrence limit of \$1,625,000 all risks involved
Casualty(3 Layers)	\$975,000 x/s \$25,000 each risk, each occurrence
Casualty(Clash)	\$2,000,000 x/s \$1,000,000 each loss occurrence

At December 31, 2001, the Company also maintained the following coverage on a per occurrence basis:

Property (2 layers)                      100% of ultimate net loss in excess of \$125,000

As of the examination date, the Company had the following aggregate reinsurance program in place:

Property                                      90% of \$1,000,000 in excess of 67% of net premium earned

At December 31, 2001, the Company also had the following property facultative reinsurance program in place:

Limits of the lesser of 50% of the entire risk or \$500,000, greater limits on an offer and accept basis.

Since the last examination the Company has increased its net retention by \$10,000 to \$55,000 for property business and has not changed its net retention of \$25,000 for casualty business.

The Company cedes to an authorized reinsurer. The Company qualified for recoveries in 2001 under its aggregate excess of loss treaty.

#### D. Holding Company System

The Company was not a member of any holding company system as of December 31, 2001. Furthermore, the Company had no affiliations or pooling agreements in force at December 31, 2001.

#### E. Significant Operating Ratios

The following ratios have been computed as of December 31, 2001, based upon the results of this examination:

Net premiums written in 2001 to Surplus as regards policyholders	0.44 to 1
Liabilities to Liquid assets	31%
Premiums in course of collection to Surplus as regards policyholders	1%

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 four-year period January 1, 1997 to December 31, 2001:

	<u>Amounts</u>	<u>Ratios</u>
Losses and loss adjustment expenses	\$ 8,659,470	74.92%
Other underwriting expenses	4,766,820	41.24%
Net underwriting loss	(1,868,059)	(16.16%)
Premiums earned	<u>\$11,558,231</u>	<u>100.00%</u>

#### F. Abandoned Property

During the period covered by this examination, the Company maintained appropriate records of unclaimed funds as required by Section 1316 of the New York Abandoned Property Law. Those reports that were required to be filed with the State Comptroller were done so in a timely manner.

#### G. Annual Statement

During the review of the Company's filed December 31, 2001 annual statement the following matters were noted:

- i. The Company failed to properly report Schedule F-Part 8 Reinstatement of Balance Sheet to Identify Net Credit for Reinsurance in its filed 2001 annual statement. It is recommended that the Company properly report Schedule F-Part 8 on all future annual statements submitted this Department.
- ii. At year-end 2001, the Company reported a certificate of deposit with a term of eighteen months as cash and short-term securities. Said investment should correctly be classified as a bond security. It is recommended that the Company properly record long-term certificates of deposit as bonds in future financial statements submitted to this Department.

1. FINANCIAL STATEMENTS

A. Balance Sheet

The following shows the assets, liabilities and surplus as regards policyholders as determined by this examination as of December 31, 2001. This statement is the same as the balance sheet filed by the Company.

<u>Assets</u>	<u>Ledger</u> <u>Assets</u>	<u>Nonadmitted</u> <u>Assets</u>	<u>Net Admitted</u> <u>Assets</u>
Bonds	\$6,279,878	\$ -0-	\$6,279,878
Preferred stocks	100,000	-0-	100,000
Common stocks	531,649	-0-	531,649
Real estate	508,394	-0-	508,394
Cash and short term investments	533,139	-0-	533,139
Uncollected premiums	507,497	1,610	507,497
Federal Income tax recoverable	15,667	-0-	15,667
Electronic data processing Equipment and software	28,553	28,553	-0-
Interest and dividends due and accrued	93,329	-0-	93,329
Other assets nonadmitted	11,499	11,499	-0-
Aggregate write-in for other than invested assets	<u>53,353</u>	<u>53,353</u>	<u>-0-</u>
Totals	<u>\$8,662,958</u>	<u>\$95,015</u>	<u>\$8,567,943</u>

Liabilities and Surplus

Losses and loss adjustment expenses		\$ 529,553
Contingent commissions and other similar charges		11,371
Other expenses		111,056
Unearned premiums		1,682,009
Ceded reinsurance premiums payable		79,111
Amounts withheld or retained by company for account of others		9,855
Aggregate write-ins for liabilities		<u>118,015</u>
Total liabilities		\$2,540,970
Special contingent surplus	\$ 100,000	
Unassigned funds	5,926,973	
Surplus as regards policyholders		<u>6,026,973</u>
Totals		<u>\$8,567,943</u>

B. Underwriting and investment exhibit

Surplus as regards policyholders increased \$626,519 during the four-year examination period, January 1, 1996 to December 31, 2001 detailed as follows:

Statement of IncomeUnderwriting

Premiums earned		\$ 11,558,231
Losses and loss adjustment expenses incurred	\$8,659,470	
Other underwriting expenses	<u>4,766,820</u>	
Total underwriting deductions		<u>13,426,290</u>
Net underwriting loss		\$(1,868,059)

## Investment Income

Net investment income earned	\$1,803,968	
Net realized capital gain(loss)	<u>158,350</u>	
Net investment gain		1,962,318

Other Income

Agents' balances charged off	\$ 7,140	
Finance and service charges	160,977	
Cumulative effect of change in accounting	356,185	
Miscellaneous income	<u>14,202</u>	
Net other income		<u>538,504</u>
Net income before dividends to policyholders and federal taxes		\$ 632,763
Dividends to policyholders		-0-
Net income before federal income taxes		\$ 632,763
Federal income taxes incurred		<u>103,475</u>
Net income		<u>\$ 529,288</u>

Capital and Surplus Account

Surplus as regards policyholders, December 31, 1996, per prior report on examination

		\$5,400,453
	Gains in Surplus	Losses in Surplus
Net income or loss	\$529,288	\$-0-
Net unrealized capital gain or loss	46,564	-0-
Change in nonadmitted assets	<u>50,667</u>	<u>-0-</u>
Net increase in Surplus as regards policyholders		<u>626,519</u>
Surplus as regards policyholders, December 31, 2001 per report on examinations		\$6,026,972

2. LOSSES AND LOSS ADJUSTMENT EXPENSES

The examination liability of \$529,553 is the same as the amount reported by the Company as of the examination date. 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.

3. 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 not to be construed to encompass the generally more precise scope of a market conduct investigation, which is the responsibility of the Property and Casualty Insurance Bureau of this Department. The general review was directed at practices of the Company in the following major areas:

- A) Sales and advertising
- B) Underwriting
- C) Rating
- D) Claims

No unfair practices were encountered unless otherwise noted.

4. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

The prior report contained three comments and recommendations as follows(page numbers refer to the prior report):

<u>ITEM</u>	<u>PAGE NO.</u>
<u>A. Real estate</u>	
It was recommended that the Company charge itself a reasonable rental for the occupancy of its own building, in an amount at least equal to the expenses of operating same plus a return on it investment	9
The Company has complied with this recommendations	
<u>B. Market conduct activities</u>	
i. It was recommended that the Company comply with the provisions of Department Regulation 90 by including all the required information in future termination notices sent to agents.	15
The company has complied with this recommendation	
ii. It was recommended that the Company comply with Section 6609(b) of the New York Insurance Law and have all policies and endorsements approved prior to their use.	15
The Company has complied with this recommendation	
iii. It was recommended that the Company comply with Section 6615(a)(3) Of the New York Insurance Law by discontinuing the use of loss free credits	15-16
The Company has complied with this recommendation	

7. SUMMARY OF COMMENTS AND RECOMMENDATIONS

As indicated in the body of this report, the Company should be directed to comply with the following:

<u>ITEM</u>	<u>PAGE</u>
	<u>NO.</u>
<u>A. Annual Statement</u>	
i. It is recommended that the Company properly report Schedule F-Part 8 on all future annual statements submitted to this Department	7
ii. It is recommended that the Company properly record long-term certificates of deposit as bonds in future financial statements submitted to this Department	7



Appointment No 21907

STATE OF NEW YORK  
INSURANCE DEPARTMENT

I, Gregory V. Serio, Superintendent of Insurance of the State of New York,  
pursuant to the provisions of the Insurance Law, do hereby appoint:

**Robert W. Clark**

*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 11th day of June 2002*



  
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Gregory V. Serio  
Superintendent of Insurance