

REPORT ON EXAMINATION

OF

DRYDEN MUTUAL INSURANCE COMPANY

AS OF

DECEMBER 31, 2017

DATE OF REPORT

MARCH 1, 2019

EXAMINER

SHEIK H. MOHAMED

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## Department of Financial Services

**ANDREW M. CUOMO**  
Governor

**LINDA A. LACEWELL**  
Superintendent

September 5, 2019

Honorable Linda A. Lacewell  
Superintendent  
New York State Department of Financial Services  
Albany, New York 12257

Madam:

Pursuant to the requirements of the New York Insurance Law, and in compliance with the instructions contained in Appointment Number 31812 dated August 30, 2018, attached hereto, I have made an examination into the condition and affairs of Dryden Mutual Insurance Company as of December 31, 2017, 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 State Department of Financial Services.

The examination was conducted at the Company’s home office located at 12 Ellis Drive, Dryden, New York 13053.

## **1. SCOPE OF EXAMINATION**

The Department has performed an examination of the Company, a single-state insurer. The previous examination was conducted as of December 31, 2013. This examination covered the four-year period from January 1, 2014 through December 31, 2017. 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 current and 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 New York laws, statutory accounting principles, and annual statement instructions.

This examination report includes, but is not limited to, the following:

- Company history
- Management and control
- Territory and plan of operation
- Reinsurance
- Loss review and analysis
- Financial statement presentation
- 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

Dryden Mutual Insurance Company became licensed on March 28, 1860 and commenced business on May 7, 1860. The Company was incorporated under the laws of the State of New York on December 14, 1910 as the Dryden and Groton Mutual Fire Insurance Company for the purposes of transacting business as an assessment cooperative fire insurance association in the towns of Dryden and Groton, Tompkins County, New York. On April 1, 1984, the Company converted to an advance premium corporation and changed its name to Dryden Mutual Insurance Company.

### A. Corporate Governance

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 seven nor more than fifteen members. The board meets ten times during each calendar year. At December 31, 2017, the board of directors was comprised of the following nine members:

| <u>Name and Residence</u>           | <u>Principal Business Affiliation</u>   |
|-------------------------------------|---|
| Lawrence L. Brown<br>Marathon, NY   | Self-employed specialty horse breeder   |
| John J. Carlin<br>Binghamton, NY    | Attorney,<br>Levene, Gouldin & Thompson, LLP  |
| Richard J. Clark<br>Dryden, NY      | Owner,<br>Shur Fine Dryden Food Market<br>Secretary and Treasurer,<br>Dryden Mutual Insurance Company |
| Jerome F. Denton<br>Elmira, NY      | Retired   |
| William J. Kaminski<br>Romulus, NY  | Independent Human Resource Consultant   |
| Frank J. Lamphier<br>Locke, NY      | Vice Chairman of the Board,<br>Dryden Mutual Insurance Company  |
| Matthew J. McSherry<br>Cortland, NY | Certified Public Accountant and Partner,<br>Port, Kashdin & McSherry                                  |

Name and ResidencePrincipal Business Affiliation

Donald P. Reed  
Cortland, NY

Owner,  
Reed's Seeds  
Chairman of the Board,  
Dryden Mutual Insurance Company

Gary L. Wood  
Dryden, NY

Retired

As of December 31, 2017, the principal officers of the Company were as follows:

NameTitle

Peter J. Vercillo

President and Chief Executive Officer

Richard J. Clark

Secretary and Treasurer

Samuel J. Crisalli

Vice President

Diana L. Tracy

Vice President, Assistant Secretary and  
Assistant Treasurer

B. Territory and Plan of Operation

As of December 31, 2017, 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                           |
| 10               | Elevator                                       |
| 11               | Animal   |
| 12               | Collision                                      |
| 13               | Personal injury liability                      |
| 14               | Property damage liability                      |
| 15               | Workers' compensation and employers' liability |
| 19               | Motor vehicle and aircraft physical damage     |
| 20               | Marine and inland marine (inland only)         |

The Company was also licensed as of December 31, 2017 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 and the Company's current capital structure, 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 \$625,000.

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

| <u>Calendar Year</u> | <u>Direct<br/>Premiums</u> | <u>Assumed<br/>Premiums</u> | <u>Total Gross<br/>Premiums</u> |
|----------------------|----------------------------|-----------------------------|---------------------------------|
| 2014                 | \$55,726,693               | \$484,592                   | \$56,211,285                    |
| 2015                 | \$59,738,624               | \$531,010                   | \$60,269,634                    |
| 2016                 | \$62,038,004               | \$466,335                   | \$62,504,339                    |
| 2017                 | \$63,973,195               | \$602,733                   | \$64,575,928                    |

The Company's major lines of business are commercial multiple peril, homeowners multiple peril, fire, and other liability – occurrence which accounted for 52.0%, 16.5%, 13.9% and 10.7%, respectively, of the Company's 2017 direct written business. The other liability - occurrence product line includes liability coverage attached to residential, commercial and fire policies. The Company's business is produced through approximately 247 agents throughout New York State.

Assumed reinsurance accounted for 0.93% of the Company's gross premium written at December 31, 2017. Because the Company participates in the National Association of Mutual Insurance Companies' Director and Officers and Insurance Company Professional Liability program, the Company is obligated to assume pooled financial risk in a certain layering order. Also, because the Company participates and purchases catastrophe reinsurance from the Mutual Reinsurance Bureau, the Company is obligated to assume pooled property catastrophe risk.

#### C. Reinsurance Ceded

The Company places reinsurance with reinsurers that hold an A.M. Best financial strength rating of A- or higher. There are no significant counter-party risks related to the reinsurance recoverables of the

Company. The Company considers its risk appetite and tolerance when determining the reinsurance program.

The Company has structured its ceded reinsurance program as follows:

| <u>Type of Treaty</u>  | <u>Cession</u>  |
|--|---|
| <u>Property</u><br>Property per risk excess of loss<br>100% authorized     | \$2,000,000 in excess of \$1,000,000 ultimate net loss each risk any one loss occurrence, limit \$6,000,000 all risks in each loss occurrence.  |
| Property catastrophe excess of loss<br>(4 layers – 100% authorized)        | \$32,000,000 in excess of \$3,000,000 ultimate net loss in any one loss occurrence.   |
| Property catastrophe excess of loss<br>40% authorized                      | \$25,000,000 in excess of \$35,000,000 ultimate net loss in any one loss occurrence.  |
| Equipment breakdown 100% quota share<br>100% authorized                    | \$100,000,000 on any one risk as respects commercial multi-peril policies.  |
| <u>Casualty</u><br>Casualty excess of loss<br>(2 layers – 100% authorized) | \$1,000,000 in excess of \$1,000,000 ultimate net loss any one loss occurrence as respects policies with a maximum limit of liability of \$1,000,000 per occurrence, per insured.                       |
|  | For certain policies, \$2,000,000 in excess of \$1,000,000 ultimate net loss any one loss occurrence as respects policies with a maximum limit of liability of \$2,000,000 per occurrence, per insured. |

The Company also maintains a \$1 million in excess of \$1 million clash coverage for situations involving two or more casualty policies where neither policy limit exceeds the retention.

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 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 the NAIC Accounting Practices and Procedures Manual, Statement of Statutory Accounting Principle (“SSAP”) No. 62R. Representations were supported by 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 SSAP No. 62R.

D. Holding Company System

The Company is not a member of a holding company system.

E. Significant Ratios

The Company’s operating ratios, computed as of December 31, 2017, fall within the benchmark ranges set forth in the Insurance Regulatory Information System of the NAIC.

| <u>Operating Ratios</u>                        | <u>Result</u> |
|--|---------------|
| Net premiums written to policyholders' surplus | 44%           |
| Adjusted liabilities to liquid assets          | 34%           |
| Two-year overall operating                     | 70%           |

Underwriting Ratios

The underwriting ratios presented below are on an earned/incurred basis and encompass the four-year period covered by this examination:

|  | <u>Amounts</u>       | <u>Ratios</u>  |
|--|----------------------|----------------|
| Losses and loss adjustment expenses incurred | \$ 92,603,646        | 39.94%         |
| Other underwriting expenses incurred         | 96,114,680           | 41.45          |
| Net underwriting gain (loss)                 | <u>43,165,079</u>    | <u>18.61</u>   |
| Premiums earned                              | <u>\$231,883,405</u> | <u>100.00%</u> |

The Company's reported risk-based capital score ("RBC") was 2,664% at December 31, 2017. The RBC is a measure of the minimum amount of capital appropriate for a reporting entity to support its overall business operations in consideration of its size and risk profile. An RBC of 200% or below can result in regulatory action. There were no financial adjustments in this report that impacted the Company's RBC score.

### 3. FINANCIAL STATEMENTS

#### A. Balance Sheet

The following shows the assets, liabilities and surplus as regards policyholders as of December 31, 2017, as reported by the Company:

| <u>Assets</u>  | <u>Assets</u>        | <u>Assets Not<br/>Admitted</u> | <u>Net Admitted<br/>Assets</u> |
|--|----------------------|--------------------------------|--------------------------------|
| Bonds  | \$134,795,422        | \$ 0                           | \$134,795,422                  |
| Common stocks (stocks)   | 34,154,472           | 0                              | 34,154,472                     |
| Properties occupied by the company   | 1,236,755            | 0                              | 1,236,755                      |
| Cash, cash equivalents and short-term<br>Investments   | 12,854,740           | 0                              | 12,854,740                     |
| Other invested assets  | 81,311               | 81,311                         | 0                              |
| Investment income due and accrued  | 1,411,291            | 0                              | 1,411,291                      |
| Uncollected premiums and agents' balances in<br>the course of collection                       | 2,271,480            | 274,771                        | 1,996,709                      |
| Deferred premiums, agents' balances and<br>installments booked but deferred and not yet<br>due | 11,102,066           | 0                              | 11,102,066                     |
| Amounts recoverable from reinsurers  | 954,091              | 0                              | 954,091                        |
| Funds held by or deposited with reinsured<br>Companies   | 334,432              | 0                              | 334,432                        |
| Other amounts receivable under reinsurance<br>Contracts  | (7,778)              | 0                              | (7,778)                        |
| Net deferred tax asset   | 209,536              | 0                              | 209,536                        |
| Electronic data processing equipment and<br>Software   | 260,589              | 0                              | 260,589                        |
| Furniture and equipment, including health<br>care delivery assets                              | 3,223,738            | 3,223,738                      | 0                              |
| Equities and pools association   | 182,156              |                                | 182,156                        |
| Company owned life insurance   | <u>18,181,687</u>    | <u>0</u>                       | <u>18,181,687</u>              |
| Total assets   | <u>\$221,245,988</u> | <u>\$3,579,820</u>             | <u>\$217,666,168</u>           |

Liabilities, Surplus and Other FundsLiabilities

|   |                   |
|---|-------------------|
| Losses and loss adjustment expenses                                   | \$ 28,132,658     |
| Commissions payable, contingent commissions and other similar charges | 3,685,114         |
| Other expenses (excluding taxes, licenses and fees)                   | 1,119,250         |
| Taxes, licenses and fees (excluding federal and foreign income taxes) | 54,687            |
| Current federal and foreign income taxes                              | (845,188)         |
| Unearned premiums   | 32,769,585        |
| Advance premium   | 416,893           |
| Ceded reinsurance premiums payable (net of ceding commissions)        | 333,608           |
| Amounts withheld or retained by company for account of others         | 1,888,782         |
| Transition pension & SERP liabilities                                 | <u>5,414,872</u>  |
| <br>Total liabilities   | <br>\$ 72,970,261 |

Surplus and Other Funds

|  |                          |
|--|--------------------------|
| Special surplus funds                          | \$ 650,000               |
| Unassigned funds (surplus)                     | <u>144,045,907</u>       |
| <br>Surplus as regards policyholders           | <br><u>\$144,695,907</u> |
| <br>Total liabilities, surplus and other funds | <br><u>\$217,666,168</u> |

Note: The Internal Revenue Service has not audited the Company's federal income tax returns that were filed during the examination period. 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

The net income for the examination period, as reported by the Company was \$48,666,080 as detailed below:

Underwriting Income

|  |                   |                    |
|--|-------------------|--------------------|
| Premiums earned                              |                   | \$231,883,405      |
| Deductions:                                  |                   |                    |
| Losses and loss adjustment expenses incurred | \$92,603,646      |                    |
| Other underwriting expenses incurred         | <u>96,114,680</u> |                    |
| Total underwriting deductions                |                   | <u>188,718,326</u> |
| Net underwriting gain or (loss)              |                   | \$ 43,165,079      |

Investment Income

|                               |                  |            |
|-------------------------------|------------------|------------|
| Net investment income earned  | \$15,332,501     |            |
| Net realized capital gain     | <u>4,306,963</u> |            |
| Net investment gain or (loss) |                  | 19,639,464 |

Other Income

|   |                  |                      |
|---|------------------|----------------------|
| Net gain or (loss) from agents' or premium balances charged off | (585,728)        |                      |
| Finance and service charges not included in premiums            | 3,300,205        |                      |
| Company owned life insurance interest                           | <u>2,045,998</u> |                      |
| Total other income or (loss)                                    |                  | <u>4,760,475</u>     |
| Net income before federal income taxes                          |                  | \$ 67,565,018        |
| Federal income tax incurred                                     |                  | <u>18,898,938</u>    |
| Net income  |                  | <u>\$ 48,666,080</u> |

C. Capital and Surplus

Surplus as regards policyholders increased \$43,148,018 during the four-year examination period January 1, 2014 through December 31, 2017, as reported by the Company, detailed as follows:

|   |                             |                              |  |                      |
|---|-----------------------------|------------------------------|--|----------------------|
| Surplus as regards policyholders, as reported<br>by the Company as of December 31, 2013 |                             |                              |  | \$101,547,889        |
|   | <u>Gains in<br/>Surplus</u> | <u>Losses in<br/>Surplus</u> |  |                      |
| Net income  | \$48,666,080                |                              |  |                      |
| Net unrealized capital gains or (losses)  | 5,154,407                   |                              |  |                      |
| Change in net deferred income tax   |                             | \$ 3,570,465                 |  |                      |
| Change in nonadmitted assets  | 2,253,064                   |                              |  |                      |
| Change in surplus notes   |                             | 1,875,000                    |  |                      |
| Change in pension liability   | <u>0</u>                    | <u>7,480,068</u>             |  |                      |
| Net increase (decrease) in surplus  | \$56,073,551                | \$12,925,533                 |  | <u>43,148,018</u>    |
| Surplus as regards policyholders, as reported<br>by the Company as of December 31, 2017 |                             |                              |  | <u>\$144,695,907</u> |

No adjustments were made to surplus as a result of this examination.

**4. LOSSES AND LOSS ADJUSTMENT EXPENSES**

The examination liability for the captioned items of \$28,132,658 is the same as reported by the Company as of December 31, 2017. The examination analysis of the loss and loss adjustment expense reserves was conducted in accordance with generally accepted actuarial principles and statutory accounting principles, including SSAP No. 55. The reserves are concentrated in the commercial multiple peril line of business.

## 5. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

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

| <u>ITEM</u> |   | <u>PAGE NO.</u> |
|-------------|---|-----------------|
| A.          | <u>Management</u>   |                 |
|             | It was recommended that the Company have each board member sign a statement confirming that they have received and read the report on examination and retain such statements in its files pursuant to the provisions of Section 312(b) of the New York Insurance Law. | 4               |
|             | The Company has complied with this recommendation.  |                 |
| B.          | <u>Accounts and Records</u>   |                 |
|             | It was recommended that the Company update reserves appropriately when new information is received for a claim.   | 8               |
|             | The Company has complied with this recommendation.  |                 |

## 6. SUMMARY OF COMMENTS AND RECOMMENDATIONS

This report contains no comments or recommendations.

Respectfully submitted,

\_\_\_\_\_/S/  
Sheik H. Mohamed, CPA  
Associate Insurance Examiner

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

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

\_\_\_\_\_/S/  
Sheik H. Mohamed

Subscribed and sworn to before me

this \_\_\_\_\_ day of \_\_\_\_\_, 2019.

*APPOINTMENT NO. 31812*

*NEW YORK STATE*

***DEPARTMENT OF FINANCIAL SERVICES***

*I, Maria T. Vullo, 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:*

***Sheik Mohamed***

*as a proper person to examine the affairs of the*

***Dryden Mutual 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 30th day of August, 2018*

***MARIA T. VULLO***  
*Superintendent of Financial Services*



By:

*Joan P. Riddell*

*Joan Riddell  
Deputy Bureau Chief*