

REPORT ON EXAMINATION  
OF THE  
MEREDITH INSURANCE COMPANY  
AS OF  
DECEMBER 31, 2003

DATE OF REPORT:

OCTOBER 6, 2004

EXAMINER:

NYANTAKYI AKUOKO



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

George E. Pataki  
Governor

Gregory V. Serio  
Superintendent

Honorable Gregory V. Serio  
Superintendent of Insurance  
Albany, New York 12257

Pursuant to the requirements of the New York Insurance Law, and in compliance with the instructions contained in Appointment Number 22246 dated August 10, 2004, attached hereto, I have made an examination into the condition and affairs of the Meredith Insurance Company as of December 31, 2003 and submit the following report thereon.

The examination was conducted at the Company's home office located at 357 Kelso Road, East Meredith, New York 13757.

Wherever the designations "the Company", or "MIC" appear herein without qualification, they should be understood to indicate the Meredith Insurance Company.

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## 1. SCOPE OF EXAMINATION

The previous examination was conducted as of December 31, 1998. This examination covered the five-year period from January 1, 1999 through December 31, 2003 and was limited in its scope to a review or audit of only those balance sheet items considered by this Department to require analysis, verification or description, including: invested assets, inter-company balances, loss and loss adjustment expense reserves and the provision for reinsurance. The examination included a review of income, disbursements and company records deemed necessary to accomplish such analysis or verification.

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

## 2. DESCRIPTION OF COMPANY

The Company was organized on 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 members nor more than thirteen members. Prior to February 28, 2003, when this Department approved an amendment of the Company's

charter and by-laws, management of the Company was vested in a board of directors consisting of eleven directors.

As of the examination date, the board of directors was comprised of nine members, divided into three groups as nearly equal as possible, with one group being elected at each annual policyholders' meeting for a term of three years. The board met six times during each calendar year, thereby complying with Section 6624(b) of the New York Insurance law.

Each of the director's qualifications, as set forth in Article II Section I of the Company's by-laws, were reviewed and it appears that each director was duly qualified. The directors as of December 31, 2003 were as follows:

<u>Director</u>	<u>Principal Business Affiliation</u>
John Bramley (E) Delhi, NY	Vice President, Meredith Insurance Company
Edward Dunbar Laurens, NY	Retired Farmer
Owen Howarth (E) Delhi, NY	President, Meredith Insurance Company
Joan Janiszewski Delhi, NY	Teacher
Barbara MacClintock East Meredith, NY	Secretary/Treasurer, Meredith Insurance Company
Michael MacClintock(E) East Meredith, NY	Building Facility Manager
Herman Menke Treadwell, NY	Retired postal service employee
Betty Shaw Delhi, NY	Insurance agent
Jean Humphries Delhi, NY	Insurance agency employee

(E) denotes member of Executive Committee

The minutes of all meetings of the Board of Directors held during the examination period were reviewed. The average attendance by the board of directors was approximately 87%, with each individual director's attendance being adequate at these meetings.

The following is a list of the Company's officers, as of December 31, 2003:

President	Owen Howarth
Vice President	John Bramley
Secretary/Treasurer	Barbara MacClintock

B. Territory and Plan of Operation

The Company writes predominantly in Delaware County, New York State, through 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 once every three years on or prior to the renewal dates of policies.

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

<u>Calendar Year</u>	<u>Direct Premiums Written</u>
1999	\$ 44,544
2000	44,168
2001	43,171
2002	44,048
2003	42,415

As of December 31, 2003, 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

Based upon 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 \$100,000.

#### C. Reinsurance

The Company had no assumed reinsurance premiums written as of December 31, 2003. The Schedule F as contained in the Company's annual statements filed for the years within the examination period was found to accurately reflect its reinsurance transactions. The examiner reviewed the ceded reinsurance contract on file during the examination period. The contract, as endorsed during the examination, contained the required standard clauses, including insolvency clause, meeting the requirements of Section 1308 of the New York Insurance Law.

As of December 31, 2003, the Company had the following reinsurance program in place:

Property	Five times the Company's net retention of \$14,000, subject to a maximum cession of \$70,000, each risk with a \$1,000 deductible on all covered perils except windstorm.
Windstorm	\$1,000 deductible on 100% cession any one loss occurrence.

The Company has not changed its net retention for its property business since the prior examination. However, the Company shares its larger risks with other New York co-operative insurers.

D. Holding Company System

As of December 31, 2003, the Company was not a member of any holding company system. The Company was independent with no affiliations or pooling agreements in force as of the examination date.

E. Significant Operating Ratios

The following ratios have been computed, as of December 31, 2003, based upon the results of this examination:

Net premiums written in 2003 to surplus as regards policyholders	.03 to 1
Liabilities to liquid assets	3.64%

The above ratios fall within the acceptable 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 from January 1, 1999 to December 31, 2003:

	<u>Amounts</u>	<u>Ratios</u>
Losses and loss adjustment expenses incurred	\$ 70,066	41.1%
Other underwriting expenses incurred	137,396	80.5%
Net underwriting gain(loss)	<u>(36,803)</u>	<u>(21.6%)</u>
Premiums earned	<u>\$170,659</u>	<u>100.00%</u>

The company received, for the period under examination, an exemption from the expense limitation imposed by Section 6613 of the New York State Insurance Law.



F. Abandoned Property Law

During the period covered by this examination, the Company maintained appropriate reports of unclaimed funds as required by Section 1316 of the New York Abandoned Property Law. The Company filed all required abandoned property reports with the Office of the New York State Comptroller in a timely manner during the period under examination.

G. Accounts and Records

i. Custodial Agreement

As of December 31, 2003, the Company maintained a custodial account with a proper banking institution. The custodial agreement was reviewed, however, it was noted that some of the key provisions and safeguards suggested by the National Association of Insurance Commissioners (NAIC) Financial Condition Examiners Handbook and the New York Circular Letter No. 2 of 1977, were not included in the agreement. Therefore, it is recommended that the Company comply with NAIC suggestions, reinforced by Circular Letter No. 2 of 1997 and obtain a custodial agreement that includes the suggestions specified by the NAIC and the New York Insurance Department.

ii. Bank Accounts and Signature Requirements

During the review of the bank confirmations and cancelled checks for authorized signatures, it was noted that one of the directors was listed as an authorized signatory on some of the Company's accounts. In addition, the aforementioned director was the second signature on some of the Company's checks issued for payments in 2003. This director was not an officer of the Company but was serving on the Finance Committee of the Board of Directors. Section 6611(a)(4)(C) of the New York Insurance Law states in part that, "All checks issued shall be

signed by two officers or by one officer upon the written order of another officer..." It is therefore recommended that the Company comply with the signatory requirements of Section 6611(a)(4)(C) regarding the signing of checks and regarding the authorized signatories on Company accounts.

iii. Misclassification of Asset

The examination admitted asset for Cash on Hand and on Deposit of \$59,052 is \$680,149 less than the \$739,201 reported by the Company in its 2003 filed annual statement. The examination difference results from a reclassification of thirteen investments in Certificates of Deposit ("CD"), which were reported as part of cash in Schedule E of the annual statement. Each of the thirteen CDs had a maturity date in excess of one-year from the date of acquisition. The NAIC Statement of Statutory Accounting Principle ("SSAP") Manual No. 26 paragraph 2 states in part that, "Certificates of deposit and commercial paper that have fixed schedule of payments and maturity date in excess of one year from the date of acquisition" shall be classified as bonds."

The total balance of CDs, as of December 31, 2003 was \$680,149. The amount should have been classified a bonds. Since the amount has no surplus effect, no examination change was made. Nevertheless, it is recommended that the Company comply with SSAP No. 26 paragraph 2 and report certificates of deposit that have fixed dates in excess of one year from the date of acquisition as bonds.

### 3. FINANCIAL STATEMENTS

#### A. Balance sheet

The following shows the Company's assets, liabilities and surplus as regards policyholders as determined by this examination and as reported by the Company, as of December 31, 2003.

<u>Assets</u>	Ledger <u>Assets</u>	Not-Admitted <u>Assets</u>	Net Admitted <u>Assets</u>
Bonds	\$ 151,206	\$ -0-	\$ 151,206
Cash	<u>739,201</u>	<u>-0-</u>	<u>739,201</u>
Total Assets	<u>\$ 890,407</u>	<u>\$ -0-</u>	<u>\$ 890,407</u>

#### Liabilities and Surplus

Losses and loss adjustment expenses			\$ 475
Unearned premiums			<u>31,920</u>
Total liabilities			32,395
Required Surplus		\$ 100,000	
Unassigned Funds		<u>758,012</u>	
Surplus as regards policyholders			<u>\$ 858,012</u>
Total Liabilities and Surplus			<u>\$ 890,407</u>

The Internal Revenue Service did not audit the Company's federal income tax returns during the period under examination. The examiner is unaware of any potential exposure of 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 \$ 177,172 during the five-year examination period, January 1, 1999 through December 31, 2003. The following is a condensed statement of the underwriting and investment results:

Statement of Income

Underwriting Income

Premium earned		\$ 170,659
Losses and loss adjustment expenses incurred	\$ 70,066	
Other underwriting expenses incurred	<u>137,396</u>	
Total underwriting deductions		<u>207,462</u>
Net underwriting gain(loss)		\$ (36,803)

Investment Income

Net investment income earned	\$ 209,415	
Net realized capital gain	<u>2,940</u>	
Net investment gain(loss)		212,355

Other Income

Aggregate write-ins for miscellaneous income	<u>1,084</u>	
Total Other Income		<u>1,084</u>
Net income before dividends to policyholders		\$ 176,636
And federal; and foreign income taxes		
Less: Dividends to Policyholders		-0-
Net income before federal and foreign		\$ 176,636
Income taxes		
Federal and foreign income taxes incurred		<u>-0-</u>

Net income(loss) \$ 176,636

Capital and Surplus Account

Surplus as regards policyholders, December 31, 1998, per prior report on examination		\$680,840
	Gains in <u>Surplus</u>	Losses in <u>Surplus</u>
Net income or loss	\$ 176,636	\$-0-
Net realized capital losses	536	-0-
Change in non-admitted assets	-0-	-0-
Total gains and losses	<u>\$ 177,172</u>	<u>\$-0-</u>
Net increase in surplus		\$177,172
Surplus as regards policyholders per report on examination, as of December 31, 2003		\$858,012

4. LOSS AND LOSS ADJUSTMENT EXPENSE RESERVE

This examination included a review of the Company's loss register to determine the existence of any outstanding claims and any trends in the reporting of incurred but not reported losses. The Company reported liability of \$475, which is the same as the amount reported as the examination liability.

5. MARKET CONDUCT ACTIVITIES

During 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. This examination's general review was directed at practices of the Company in the following areas:

- A. Sales and advertising
- B. Underwriting
- C. Rating
- D. Claims
- E. Cancellation

The review indicated the following findings and recommendations:

i. Regulation 64

A review of the claim files indicated that the Company did not maintain records to indicate that it acknowledged receipt of claim notices within 15 business days, as required by 11 NYCRR 216.4. (Regulation 64).

In denied claims, notices sent to claimants by the Company did not set out prominently the following statement, "Should you wish to take the matter up with the New York State Insurance Department...", as required by 11NYCRR 216.6(h).

During the course of the examination, the Company took immediate steps to correct the discrepancies noted above. Nevertheless, it is recommended that the Company comply with 11 NYCRR 216.4 and 216.6(h) of the Department Regulation 64 and maintain claim files in such manner that events can be reconstructed by the Department examiners.

ii. The New York Standard Mortgage Clause and Proof of Mailing

In the review of the cancellation of policies, it was noted that the Company did not maintain records to indicate that mortgagees were given ten days advance notice that an insurance policy was being cancelled at the request of the insured, as required by Section 3404(e) of the New York Insurance Law ("NYIL"), the New York Standard Mortgage Clause and as interpreted by the Department Circular Letter No. 17 of 1976.

Section 3425(h) of the NYIL states in part that, " Proof of mailing of notice of cancellation, reduction of limit, substitution of policy forms... shall be sufficient proof of the

giving of notice and the giving of the reasons required by this section." Therefore, it is recommended that the Company comply with Section 3404(e) of the NYIL and Circular Letter 17 of 1976 when canceling policies with mortgagees, at the request of the insured.

Similar recommendation was made in the prior examination report.

#### 6. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

The prior report on contained one recommendation as follows (page numbers refer to the prior report):

Item	Page No.
<p>A. It was recommended that the Company comply with the Department guidelines as regards incorporating the nine provisions in their custodial agreements, henceforth.</p> <p style="margin-left: 40px;">The Company complied with this recommendation.</p> <p>However, with adoption of the codification in 2001, additional safeguards were required by the NAIC to be included in custodial agreements hence the repeat recommendation.</p>	6
<p>B. It was recommended that the Company comply with Section 1303 of the New York Insurance Law by developing and instituting a procedure, whereby, a more accurate unpaid loss adjustment expense liability would be represented.</p>	9

Item	Page No.
The Company has complied with this recommendation.	
C. It was recommended that the Company comply with the New York Standard Mortgage Clause and Circular Letter No. 17 of 1976 and give mortgagee ten days advance notice of cancellation, when policies are cancelled at the request of the insured.	10
The Company did not comply with this recommendation.	

## 7. SUMMARY OF COMMENTS AND RECOMMENDATIONS

The following is a summary of the comments and recommendations made in the body of this report:

Item	Page No.
A. <u>Custodial Agreement</u>	
It is recommended that the Company comply with NAIC suggestions, reinforced by Circular Letter No. 2 of 1997 and obtain a custodial agreement that includes the suggestions specified by the NAIC and the New York Insurance Department.	7
B. <u>Bank Accounts and Signature Requirements</u>	
It is therefore recommended that the Company comply with the signatory requirements of Section 6611(a)(4)(C) regarding the signing of checks and regarding authorized signatories on Company accounts	7



Item	Page No.
C. <u>Misclassification of assets</u>	8
<p>It is recommended that the Company comply with SSAP No. 26 and report certificates of deposit that have fixed dates in excess of one year from the date of acquisition as bonds.</p>	
D. <u>Regulation 64</u>	12
<p>It is recommended that the Company comply with 11 NYCRR 216.4 and 216.6(h) of the Department Regulation 64 and maintain claim files in such manner that events can be reconstructed by the Department examiners.</p>	
E. <u>The New York Standard Mortgage Clause and Proof of Mailing</u>	12
<p>It is recommended that the Company comply with Section 3404(e) 68, 3425(h) of the NYIL and Circular Letter 17 of 1976 and the provisions of the New York Standard Mortgage Clause when canceling policies with mortgagees, at the request of the insured.</p>	

IS/

Nyantakyi Akuoko  
Senior Insurance Examiner

STATE OF NEW YORK)  
  )SS.  
  )  
COUNTY OF ALBANY )

NYANTAKYI AKUOKO, being duly sworn, deposes and says that the foregoing report submitted is true to the best of his knowledge and belief.

IS/  
Nyantakyi Akuoko

Subscribed and sworn to before me  
this 20<sup>TH</sup> day of AUGUST 2004

IS/  
**DIANNE M. BURKE**  
Notary Public, State of New York  
Qualified in Albany County  
No. 013U5076509  
Commission Expires April 21, 2007

**Appointment No 22246**

**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:*

**Nyantakyi Akuoko**

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

**Meredith 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 Albany,*

*this 10th day of \*August, 2004*



  
\_\_\_\_\_  
GREGORY V. SERIO  
*Superintendent of Insurance*