

REPORT ON EXAMINATION

OF THE

MEREDITH INSURANCE COMPANY

AS OF

DECEMBER 31, 2008

DATE OF REPORT

OCTOBER 19, 2009

EXAMINER

NYANTAKYI AKUOKO

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

October 19, 2009

Honorable James J. Wrynn
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 30370 dated August 6, 2009 attached hereto, I have made an examination into the condition and affairs of the Meredith Insurance Company as of December 31, 2008, and submit the following report thereon.

Wherever the designation "the Company" appears herein without qualification, it should be understood to indicate the Meredith 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 357 Kelso Road, East Meredith, New York 13757.

1. SCOPE OF EXAMINATION

The Department has performed a single-state examination of the Meredith Insurance Company. The previous examination was conducted as of December 31, 2003. This examination covered the five-year period from January 1, 2004 through December 31, 2008. 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 Financial Condition Examiners Handbook of the NAIC:

- Significant subsequent events
- Company history
- Corporate records
- Management and control
- Fidelity bonds and other insurance
- Territory and plan of operation
- Growth of Company
- Loss experience
- Reinsurance
- Accounts and records
- 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

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 nor more than thirteen members. The board meets six times during each calendar year. At December 31, 2008, the board of directors was comprised of the following nine members:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
John Bramley Delhi, New York	First Vice President, Meredith Insurance Company & Owner, J. Bramley & Associates, Inc.
Edward Dunbar Laurens, New York	Retired Farmer
Jean Humphries Delhi, New York	Insurance agency employee
Barbara MacClintock East Meredith, New York	Secretary/Treasurer, Meredith Insurance Company
Michael MacClintock East Meredith, New York	Building Facility Manager

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Herman Menke Treadwell, New York	Retired post office employee
Terry Mostert East Meredith, New York	Employee, Delaware National Bank of Delhi
Bette Shaw Delhi, New York	President Meredith Insurance Company
Joan Tubridy Delhi, New York	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 has an acceptable record of attendance.

Article II, Section 1 of the Company's by-laws states that each member of the board of directors "...shall be a member and resident of the territory in which it is authorized to transact business." Upon examination, it was found that one of the directors sold his property which was insured by the Company. Upon the sale of the property, the policy was cancelled; therefore, the director was no longer a member. Nevertheless, the said director attended and participated in board meetings and also received remuneration for his attendance.

Section 717(a) of the New York Business Corporation Law ("NYBCL") sets forth the fiduciary responsibilities of directors. This section indicates that a director shall perform their duties as such in good faith and with that degree of care, which an ordinarily prudent person in like position would use under similar circumstances.

Permitting non-directors to attend, participate in and receive compensation for attending board meetings are not the acts of a prudent person. Therefore, it is 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 is recommended that the Company comply with its by-laws and allow only qualified members to serve on the board.

As of December 31, 2008, the principal officers of the Company were as follows:

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

B. Territory and Plan of Operation

As of December 31, 2008, the Company was licensed as an assessment cooperative insurance company to transact business within all the Counties of the State of New York, excluding the Counties of Bronx, Kings, New York, Queens and Richmond. 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

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.

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

<u>Calendar Year</u>	<u>Direct Premiums Written</u>
2004	\$43,566
2005	\$40,728
2006	\$42,287
2007	\$43,313
2008	\$40,533

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 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 assumed no reinsurance during the period covered by this examination.

As of December 31, 2008, the Company had the following ceded reinsurance program in place:

Property	100% of \$70,000 in excess of initial ultimate net loss of \$14,000 each loss, each risk, subject to a reinsurer's liability of \$210,000 each loss occurrence.
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The Company had the following catastrophe excess of loss reinsurance program in effect at December 31, 2008:

Windstorm	100% of the ultimate net loss over and above an ultimate net loss equal to 10% of the Company's policyholder's surplus per occurrence.
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Section 1308(e)(1)(A) of the New York Insurance Law ("NYIL") states, in part, that "During any period of twelve consecutive months, without the superintendent's permission: no domestic insurer, except life, shall by any reinsurance agreement or agreements cede an amount of its insurance on which the total gross reinsurance premiums are more than fifty percent of the unearned premiums on the net amount of its insurance in force at the beginning of such period..."

The Department previously granted approval for the Company to cede an amount in excess of the fifty percent limitation prescribed by Section 1308(e)(1)(A) of the NYIL. However, in 2006 and 2008 the

Company failed to submit additional reinsurance treaties that it became a party to for review in accordance with Section 1308(e)(1)(A). Therefore, it is 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.

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 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 Statement of Statutory Accounting Principles (“SSAP”) No. 62. Representations were supported by an attestation from the Company's Vice President and Secretary/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 26 and 27 of SSAP No. 62.

D. Holding Company System

The Company is not a member of any holding company system. As of December 31, 2008, the Company was independent with no affiliations.

E. Significant Operating Ratios

The following ratios have been computed as of December 31, 2008, based upon the results of this examination:

Net premiums written to surplus as regards policyholders	.02:1
Liabilities to liquid assets (cash and invested assets less investments in affiliates)	3%

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	\$31,481	26.6%
Other underwriting expenses incurred	167,289	141.4%
Net underwriting loss	<u>(80,431)</u>	<u>(68.0%)</u>
Premiums earned	<u>\$118,339</u>	<u>100.00%</u>

F. Accounts and Records

i. Misclassification of assets

The NAIC Statement of Statutory Accounting Principles No. 2 paragraph 3 provides that, for financial statement purposes, savings accounts and certificates of deposit in banks or other similar financial institutions with maturity dates within one year or less from the acquisition date shall be classified as cash.

Upon examination, it was determined that the Company classified as bonds, two certificates of deposit with maturity dates within one year or less from the date of acquisition. Therefore, it is 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.

ii. Completion of Schedule D in accordance with the annual statement instructions

The NAIC annual statement instructions provide a guide for completion of annual statement schedules and exhibits. Upon examination, it was noted that the Company did not accurately complete Schedule D of the annual statements filed during the period under examination. It is 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.

iii. Recording of bond acquisition date

SSAP No. 26 paragraph 4 states, in part, that “A bond acquisition or disposal shall be recorded on the trade date, not the settlement date...”

Examination review of broker’s advices and Schedule D - Part 1 of the annual statements filed for the period under examination indicated that the Company recorded the settlement date as the date of acquisition for some bonds. Accordingly, it is 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.

3. FINANCIAL STATEMENTS

A. Balance Sheet

The following shows the assets, liabilities and surplus as regards policyholders as of December 31, 2008 as determined by this examination and as reported by the Company:

<u>Assets</u>	<u>Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>
Bonds	\$917,074	\$0	\$917,074
Cash, cash equivalents and short-term investments	<u>77,240</u>	<u>0</u>	<u>77,240</u>
Total assets	<u>\$994,314</u>	<u>\$0</u>	<u>\$994,314</u>
 <u>Liabilities, surplus and other funds</u>			
Losses and loss adjustment expenses			\$ 475
Unearned premiums			<u>30,545</u>
Total liabilities			31,020
Required Surplus		\$100,000	0
Unassigned funds (surplus)		<u>863,294</u>	
Surplus as regards policyholders			<u>\$963,294</u>
Total liabilities, surplus and other funds			<u>\$994,314</u>

Note: The Internal Revenue Service has not yet begun to audit tax returns covering tax years 2004 through 2008. 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. Underwriting and Investment Exhibit

Surplus as regards policyholders increased \$105,282 during the five-year examination period January 1, 2004 through December 31, 2008, detailed as follows:

Underwriting Income

Premiums earned		\$118,339
Deductions:		
Losses and loss adjustment expenses incurred	\$ 31,481	
Other underwriting expenses incurred	167,290	
Aggregate write-ins for underwriting deductions	<u>(1)</u>	
Total underwriting deductions		<u>198,770</u>
Net underwriting gain or (loss)		\$ (80,431)

Investment Income

Net investment income earned	<u>\$185,807</u>	
Net investment gain or (loss)		185,807

Other Income

Aggregate write-ins for miscellaneous income	<u>\$ 1,087</u>	
Total other income		<u>1,087</u>
Net income		<u>\$106,463</u>

Surplus as regards policyholders per report on examination as of December 31, 2003		\$858,012
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	<u>Gains in Surplus</u>	<u>Losses in Surplus</u>	
Net income	\$106,463		
Net unrealized capital gains or losses		\$1,182	
Aggregate write-ins for gains and losses in surplus	<u>1</u>	<u> </u>	
Total gains and losses	<u>\$106,464</u>	<u>\$1,182</u>	
Net increase in surplus			<u>105,282</u>
Surplus as regards policyholders per report on examination as of December 31, 2008			<u>\$963,294</u>

4. LOSSES AND LOSS ADJUSTMENT EXPENSES

The examination liability for the captioned items of \$475 is the same as reported by the Company as of December 31, 2008. The examination analysis was based on 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.

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>Custodial Agreement</u></p> <p>It was recommended that the Company comply with the 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.</p> <p>The Company has complied with this recommendation.</p>	7
<p>B. <u>Bank Accounts and Signature Requirements</u></p> <p>It was 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.</p> <p>The Company has complied with this recommendation.</p>	7
<p>C. <u>Misclassification of assets</u></p> <p>It was 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> <p>The Company has complied with this recommendation.</p>	8
<p>D. <u>Regulation 64</u></p> <p>It was 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>	12

<u>ITEM</u>	<u>PAGE NO.</u>
	The Company has complied with this recommendation.
E.	<u>The New York Standard Mortgagee Clause and Proof of Mailing</u>
	It was recommended that the Company comply with Section 3404(e), 3425(h) of the NYIL and Circular Letter 17 of 1976 and the provisions of the New York Standard Mortgagee Clause when canceling policies with mortgagees, at the request of the insured.
	12
	The Company has complied with this recommendation.

6. SUMMARY OF COMMENTS AND RECOMMENDATIONS

<u>ITEM</u>	<u>PAGE NO.</u>
A.	<u>Management</u>
	It is 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 is recommended that the Company comply with its by-laws and allow only qualified members to serve on the board.
	4
B.	<u>Reinsurance</u>
	It is 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.
	6-7
C.	<u>Accounts and Records</u>
i.	It is 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.
	8
ii.	It is 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.
	8
iii.	It is 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

Respectfully submitted,

/s/

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, subscribed by him, is true to the best of his knowledge and belief.

/s/

Nyantakyi Akuoko

Subscribed and sworn to before me

this _____ day of _____, 2010

Appointment No 30370

STATE OF NEW YORK
INSURANCE DEPARTMENT

I, Kermitt J. Brooks Acting 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

Meredtih Insurance Company

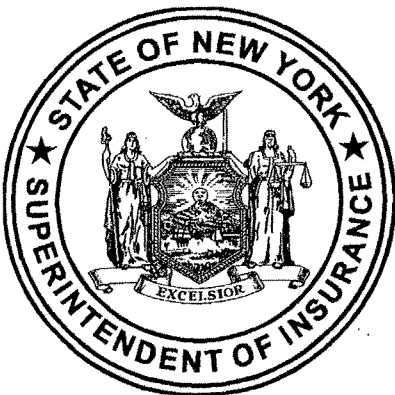
and to make a report to me in writing of the condition of the said

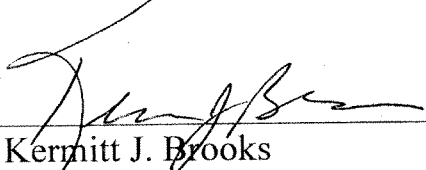
Company

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 6TH day of August 2009




Kermitt J. Brooks
Acting Superintendent of Insurance