

REPORT ON EXAMINATION

OF THE

DRYDEN MUTUAL INSURANCE COMPANY

AS OF

DECEMBER 31, 2013

DATE OF REPORT

AUGUST 27, 2014

EXAMINER

SUSAN WEIJOLA

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NEW YORK STATE
DEPARTMENT *of*
FINANCIAL SERVICES

Andrew M. Cuomo
Governor

Benjamin M. Lawsky
Superintendent

August 27, 2014

Honorable Benjamin M. Lawsky
Superintendent of Financial Services
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 31123 dated February 25, 2014, attached hereto, I have made an examination into the condition and affairs of Dryden Mutual Insurance Company as of December 31, 2013, 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.

1. SCOPE OF EXAMINATION

The Department has performed an individual examination of the Company, a single-state insurer. The previous examination was conducted as of December 31, 2008. This examination covered the five year period from January 1, 2009 through December 31, 2013. 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. The examiners also relied upon audit work performed by the Company’s independent public accountants when appropriate.

This examination report includes a summary of significant findings for the following items as called for in the Handbook:

- 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
- Statutory deposits
- 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 May 7, 1860 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. It was incorporated on December 14, 1910 under the laws of the State of New York.

On April 1, 1984, the Company converted to an advance premium corporation, changing its corporate title to Dryden Mutual Insurance Company.

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 fifteen members. The board meets ten times during each calendar year. At December 31, 2013, the board of directors was comprised of the following nine members:

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

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Donald Paul Reed Cortland, NY	Owner, Reed's Seeds Commercial Cabbage Research and Development President, Dryden Mutual Insurance Company
Gary Lee Wood Groton, NY	Retired Consulting Engineer

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 had an acceptable record of attendance.

The minutes of the board of directors' meeting held on January 25, 2011 indicate that the report on examination as of December 31, 2008 was distributed to each of the board members. However, upon request, the Company could not provide signed statements from each director confirming that they had received and read the report on examination.

Section 312(b) of the New York Insurance Law states: "A copy of the report shall be furnished by such insurer or other person to each member of its board of directors and each such member shall sign a statement which shall be retained in the insurer's files confirming that such member has received and read such report".

It is 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.

As of December 31, 2013, the principal officers of the Company were as follows:

<u>Name</u>	<u>Title</u>
Donald Paul Reed	President
Robert Banning Baxter	Chief Executive Officer & General Manager
Richard James Clark	Secretary and Treasurer
Peter Andrew Thorp	Senior Vice President
Frank J. Lamphier	Vice President
Dana J. Abbey	Chief Operating Officer
Diana Louise Tracy	Vice President & Controller
Samuel John Crisalli	Vice President & Claims Manager

B. Territory and Plan of Operation

As of December 31, 2013, 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
12	Collision
13	Personal injury liability
14	Property damage liability
19	Motor vehicle and aircraft physical damage
20	Marine and inland marine

The Company was also licensed as of December 31, 2013 to accept and cede reinsurance as provided in Section 6606 of the Insurance Law of the State of New York.

Based on 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 \$650,000.

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

<u>Calendar Year</u>	<u>Direct Premiums Written</u>
2009	\$41,691,284
2010	\$42,458,141
2011	\$44,283,892
2012	\$48,133,556
2013	\$52,980,142

The Company's major lines of business are commercial multiple peril, fire and homeowner multiple peril which accounted for 53.4%, 15.3% and 14.7%, respectively, of the Company's 2013 direct written business. The Company's business is produced through approximately 210 agents throughout New York State.

C. Reinsurance

Assumed reinsurance accounted for .28% of the Company's gross premium written at December 31, 2013. During the period covered by this examination, the Company's assumed reinsurance business has decreased slightly since the last examination. The Company's assumed reinsurance program consists mainly of participation in a casualty pool. The Company utilizes reinsurance accounting as defined in Statement of Statutory Accounting Principle ("SSAP") No. 62 for all of its assumed reinsurance business.

The company has structured its ceded reinsurance program to limit its maximum exposure on any one risk as follows:

Property (2 layers) 100% authorized	\$1,500,000 in excess of \$500,000 ultimate net loss each risk any one loss occurrence; reinsurer's liability from all risks in each loss occurrence shall not exceed \$1,500,000 and \$3,000,000 for the first and second layers excess of loss, respectively.
Casualty (2 layers) 100% authorized	\$1,250,000 in excess of \$750,000 ultimate net loss each loss occurrence; reinsurer's liability with respect to any one loss occurrence shall not exceed \$250,000 and \$1,000,000 for the first and second layers excess of loss, respectively.

The Company had the following catastrophe excess of loss reinsurance program in effect at December 31, 2013:

Property (4 layers) 100% authorized	\$33,000,000 in excess of the Company's ultimate net loss of \$2,000,000 in any one loss occurrence; reinsurer's liability shall not exceed \$3,000,000; \$5,000,000; \$5,000,000; and \$20,000,000 in any one loss occurrence for first through fourth excess of loss, respectively.
Equipment Breakdown 100% Quota Share 100% authorized	\$100,000,000 on any one risk.

All reinsurance contracts in effect throughout the examination period were reinsured by an authorized reinsurer. The Company increased their retention limit from \$500,000 to \$750,000 for casualty during the examination period.

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 Chief Executive Officer and Controller 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, 2013. Furthermore, the Company had no affiliations or pooling agreements in force at December 31, 2013.

E. Significant Operating Ratios

The following ratios have been computed as of December 31, 2013, based upon the results of this examination:

Net premiums written to surplus as regards policyholders	51%
Liabilities to liquid assets (cash and invested assets less investments in affiliates)	40%
Premiums in course of collection to surplus as regards policyholders	2%

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	\$ 85,309,274	39.62%
Other underwriting expenses incurred	86,627,799	40.23%
Net underwriting gain	<u>43,398,716</u>	<u>20.15%</u>
Premiums earned	\$215,335,789	<u>100.00%</u>

F. Accounts and Records

During the detail testing of claims handling, it was discovered that reserves were not updated based on new information received for three of the fifteen claims reviewed. In one case, an authorization to increase the reserve was in the claim file; however, the reserve was not updated. In each case, the subsequent payment on the claim was significantly higher than the reserve. Based on the foregoing, it is recommended the Company update reserves appropriately when new information is received for a claim.

3. FINANCIAL STATEMENTS

A Balance Sheet

The following shows the assets, liabilities and surplus as regards policyholders as of December 31, 2013 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	\$104,640,599	\$ 0	\$104,640,599
Common stocks	21,565,309	0	21,565,309
Cash, cash equivalents and short-term investments	6,014,126	0	6,014,126
Properties occupied by the company	899,638	0	899,638
Other invested assets	117,555	81,311	36,244
Investment income due and accrued	1,289,760	0	1,289,760
Uncollected premiums and agents' balances in the course of collection	1,702,434	133,233	1,569,201
Deferred premiums, agents' balances and installments booked but deferred and not yet due	9,032,323	0	9,032,323
Amounts recoverable from reinsurers	380,541	0	380,541
Funds held by or deposited with reinsured companies	432,015	0	432,015
Net deferred tax asset	3,766,243	1,170,840	2,595,403
Electronic data processing equipment and software	91,027	0	91,027
Furniture and equipment, including health care delivery assets	4,447,499	4,447,499	0
Equities and deposits in pools and association	236,346		236,346
Company owned life insurance	<u>14,593,275</u>	<u>0</u>	<u>14,593,275</u>
Total assets	<u>\$169,208,690</u>	<u>\$5,832,883</u>	<u>\$163,375,807</u>
 <u>Liabilities, surplus and other funds</u>			
Losses and loss adjustment expenses			\$ 26,177,484
Commissions payable, contingent commissions and other similar charges			5,404,865
Other expenses (excluding taxes, licenses and fees)			644,964
Taxes, licenses and fees (excluding federal and foreign income taxes)			40,589
Current federal and foreign income taxes			(317,616)
Unearned premiums			27,494,189
Advance premium			469,897
Ceded reinsurance premiums payable (net of ceding commissions)			423,285
Amounts withheld or retained by company for account of others			<u>1,490,261</u>
Total liabilities			\$ <u>61,827,918</u>
 <u>Surplus and Other Funds</u>			
Aggregate write-ins for special surplus			650,000
Aggregate write-ins for other than special surplus funds			417,912
Surplus notes			1,875,000
Unassigned funds (surplus)			<u>98,604,977</u>
Surplus as regards policyholders			<u>\$101,547,889</u>
Total liabilities, surplus and other funds			<u>\$163,375,807</u>

B. Statement of Income

Surplus as regards policyholders increased \$46,862,062 during the five-year examination period January 1, 2009 through December 31, 2013, detailed as follows:

Underwriting Income

Premiums earned		\$ 215,335,789
Deductions:		
Losses and loss adjustment expenses incurred	\$ 85,309,274	
Other underwriting expenses incurred	<u>86,627,799</u>	
Total underwriting deductions		<u>171,937,073</u>
Net underwriting gain		\$ 43,398,716

Investment Income

Net investment income earned	\$ 16,375,713	
Net realized capital gain	<u>1,972,779</u>	
Net investment gain		18,348,492

Other Income

Net gain or (loss) from agents' or premium balances charged off	\$ (396,894)	
Finance and service charges not included in premiums	3,429,465	
Aggregate write-ins for miscellaneous income	<u>2,194,268</u>	
Total other income		<u>5,226,839</u>
Net income before dividends to policyholders and before federal and foreign income taxes		\$ 66,974,047
Federal and foreign income taxes incurred		<u>19,987,336</u>
Net Income		\$ <u>46,986,711</u>

Surplus as regards policyholders per report on examination as of December 31, 2008			\$ 54,685,841
	<u>Gains in Surplus</u>	<u>Losses in Surplus</u>	
Net income	\$46,986,711		
Net unrealized capital gains or (losses)	4,522,455		
Change in net deferred income tax	3,371,370		
Change in nonadmitted assets		3,893,474	
Change in surplus notes	<u>0</u>	<u>4,125,000</u>	
Net increase (decrease) in surplus	<u>\$54,880,536</u>	<u>\$8,018,474</u>	<u>46,862,062</u>
Surplus as regards policyholders per report on examination as of December 31, 2013			<u>\$101,547,903</u>

4. LOSSES AND LOSS ADJUSTMENT EXPENSES

The examination liability for the captioned items of \$26,177,484 is the same as reported by the Company as of December 31, 2013. 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 the NAIC Accounting Practices & Procedures Manual, Statement of Statutory Accounting Principle No. 55 (“SSAP No. 55”).

5. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

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

<u>ITEM</u>	<u>PAGE NO.</u>
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A.	<u>Management</u>
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It is recommended that the Company maintain minutes of proceedings of all principal board committee meetings to comply with Section 6611(a)(3) of the New York Insurance Law.	4
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This recommendation is not applicable as the committees do not meet separately from the board of directors.

B. Accounts and Records

- i. It is recommended that the Company comply with SSAP No. 26 and the annual statement instructions by reporting any certificate of deposit, with a maturity term in excess of one year from the date of acquisition, as a bond in Schedule D– Part 1. 8

This recommendation is no longer applicable as the Company does not have any certificates of deposit.

- ii. It is recommended that the Company comply with the annual statement instructions by reporting, in Schedule E Part 3 of its annual statements, investments held pursuant to Section 1314 of the New York Insurance Law. 8

The Company has complied with this recommendation.

- iii. It is recommended that the Company make the necessary disclosures regarding unsecured reinsurance recoverables in future filed annual statements to comply with SSAP No. 62 and the annual statement instructions. 9

The Company has complied with this recommendation.

- iv. It is recommended that, in the future, the Company obtain letters of qualification from its independent auditors that comply with the requirements of Department Regulation 152. 9

The Company has complied with this recommendation.

- v. It is recommended that the Company establish procedures to generate from its system premium receivable reports in a form that will enable the future aging of premium receivables to be verified in accordance with SSAP No. 6. 10

The Company has complied with this recommendation.

- vi. It is recommended that the Company establish check issuing procedures that will comply with Section 6611(a)(4)(C) of the New York Insurance Law. 10

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 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
B.	<u>Accounts and Records</u>	
	It is recommended the Company update reserves appropriately when new information is received for a claim.	8

Respectfully submitted,

_____/s/_____
Susan Weijola
Senior Insurance Examiner

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

SUSAN WEIJOLA, being duly sworn, deposes and says that the foregoing report, subscribed by her,
is true to the best of his knowledge and belief.

_____/s/_____
Susan Weijola

Subscribed and sworn to before me

this _____ day of _____, 2014.

APPOINTMENT NO. 31123

NEW YORK STATE

DEPARTMENT OF FINANCIAL SERVICES

I, BENJAMIN M. LAWSKY, 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:

Susan Weijola

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

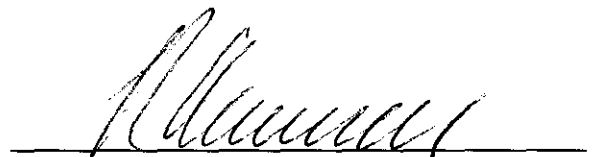
with such other information as he shall deem requisite.

*In Witness Whereof, I have hereunto subscribed by name
and affixed the official Seal of the Department
at the City of New York*

this 25th day of February, 2014

*BENJAMIN M. LAWSKY
Superintendent of Financial Services*

By:



*Rolf Kaumann
Deputy Chief Examiner*

