

REPORT ON EXAMINATION

OF

MADISON MUTUAL INSURANCE COMPANY

AS OF

DECEMBER 31, 2016

DATE OF REPORT

APRIL 19, 2018

EXAMINER

WAYNE LONGMORE

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KATHY HOCHUL
Governor

Department of Financial Services

ADRIENNE A. HARRIS
Acting Superintendent

November 30, 2021

Honorable Adrienne A. Harris
Acting 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 31699 dated January 5, 2018, attached hereto, I have made an examination into the condition and affairs of Madison Mutual Insurance Company as of December 31, 2016, and submit the following report thereon.

Wherever the designation “the Company” appears herein, without qualification, it should be understood to indicate Madison 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 1256 State Route 5, Chittenango, NY 13037.

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, 2011. This examination covered the five-year period from January 1, 2012, through December 31, 2016. Transactions occurring subsequent to this period were reviewed when 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
- Holding company description
- 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 regarding 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 incorporated under the laws of the State of New York and commenced business on January 30, 1893, to transact business as an assessment co-operative fire insurance company in Madison and Onondaga Counties in New York State.

The Company merged with Herkimer Co-operative Insurance Association and Patrons' Fire Relief Association of Madison County, in January 1983, and January 1986, respectively, with the Company being the surviving corporation in both mergers.

Effective January 1, 1987, the Department approved the extension of the Company's writing powers to include the kinds of insurance specified in subsections (a) and (b) of Section 6605 of the New York Insurance Law.

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 twenty-five members. The board meets four times during each calendar year. As of December 31, 2016, the board of directors was comprised of the following eight members:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Timothy D. Burback Waterville, NY	Retired
Christine J. Coe Canastota, NY	Executive Assistant to the County Administrator for the Madison County Board of Supervisors
Martha H. Frey Manlius, NY	Congregational Facilities Director, Sisters of St. Francis of the Neumann Communities
Beverly L. Martin Bloomingburg, NY	Retired
Harold E. Oot Kirkville, NY	President and Chief Executive Officer, Seven O's, Inc.
John C. Owens, Jr. Plymouth, NY	President and Chief Executive Officer, Madison Mutual Insurance Company

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Janice M. Sax Cicero, NY	Retired
Gary N. Stam Fayetteville, NY	Financial advisor, Stam Associates

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.

As of December 31, 2016, the principal officers of the Company were as follows:

<u>Name</u>	<u>Title</u>
Harold E. Oot	Chairman of the Board
John C. Owens, Jr.	President and Chief Executive Officer
Christine J. Coe	Secretary and Treasurer
Heidi K. Barron	Vice President
Benjamin M. Thompson	Vice President

B. Territory and Plan of Operation

As of December 31, 2016, the Company was licensed to transact business within all counties of New York State excluding the counties of Bronx, Kings, New York, Queens, and Richmond.

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
12	Collision
13	Personal injury liability
14	Property damage liability
15	Workers' compensation and employers' liability (excluding workers' compensation)
19	Motor vehicle and aircraft physical damage (excluding aircraft physical damage)

20 Marine and inland marine (inland marine only)

Paragraphs 5, 6, 7, 8, 13, 14 and 15 can be written solely in conjunction with fire insurance written under the same policy and covering the same premises. The Company is also authorized to accept and cede reinsurance as provided in Section 6606 of the New York Insurance Law.

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 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</u>
2012	\$3,815,793
2013	\$4,013,663
2014	\$4,269,051
2015	\$4,672,025
2016	\$5,149,726

The Company did not assume any reinsurance during the examination period.

At December 31, 2016, the Company distributes its insurance products exclusively through approximately 76 independent insurance agents and 18 brokers. The Company's predominant lines of business are commercial multiple peril and homeowners' multiple peril, which accounted for 46 % and 36%, respectively, of the Company's 2016 direct written premiums.

C. Reinsurance Ceded

As of December 31, 2016, the Company has structured its ceded reinsurance program as follows:

<u>Type of Treaty</u>	<u>Cession</u>
<u>Property Excess of Loss</u> 100% Authorized or Certified	\$575,000 in excess of \$175,000 ultimate net loss, each loss. Limit \$1,725,000 each occurrence.

<u>Type of Treaty</u>	<u>Cession</u>
<u>Property Catastrophe Excess of Loss</u> (2 Layers) 100% Authorized or Certified	
Layer 1	95% of \$700,000 in excess of \$300,000 ultimate net loss, each occurrence.
Layer 2	100% in excess of \$1,000,000 ultimate net loss, each occurrence.
<u>Casualty Excess of Loss</u> 100% Authorized or Certified	\$825,000 in excess of \$175,000 ultimate net loss, each occurrence.
<u>Casualty Clash Excess of Loss</u> 100% Authorized or Certified	\$2,000,000 in excess of \$1,000,000 ultimate net loss, each loss occurrence. With respect to workers' compensation insurance as required by subsection (j) of Section 3420 of the New York Insurance Law, no claim shall be made unless the Company has first sustained an ultimate net loss of \$3,000,000. The Reinsurer shall then reimburse the Company for the whole of such excess.
<u>Equipment Breakdown</u> <u>100% Quota Share</u>	100% of the Company's net retained liability subject to a limit of \$5,000,000 on any one commercial risk, \$100,000 on any one homeowner risk or \$10,000 on any one underground utility line risk without prior written agreement of the reinsurer. One policy constitutes one risk.

Facultative property coverage is maintained whereby cessions are limited to an amount equal to five times the Company's net retention, subject to a minimum net retention of \$300,000 and to a maximum cession of \$1,500,000 on any one risk covered.

Facultative casualty coverage is maintained in excess of \$1,000,000 each loss occurrence, each policy, subject to a limit of liability of \$1,000,000 each loss occurrence, each policy with an annual aggregate limit of \$2,000,000, inclusive of loss adjustment expense, during the term of the contract, for all acts of terrorism.

The Company also maintains aggregate excess of loss reinsurance for 90% of the ultimate net loss in excess of an initial ultimate net loss equal to 62.5% of the Company's net premiums earned, subject to the reinsurer's limit of liability of \$900,000 (90% of \$1,000,000) aggregate net losses in any one contract year.

The Company ceded to authorized and certified reinsurers during the period under examination. It is the Company's policy to obtain the appropriate collateral, where required, for its cessions to unauthorized reinsurers.

All significant ceded reinsurance agreements in effect as of the examination date were reviewed for required and standard 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 material reinsurance transactions. Additionally, management has represented that all material ceded reinsurance agreements transfer both underwriting and timing risk as set forth in SSAP No. 62R. Representations were supported by an attestation from the Company's President and Chief Financial Officer. 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

As of December 31, 2016, the Company was not a member of any holding company system. The Company was independent with no affiliation or pooling agreements in force.

E. Significant Operating Ratios

The Company's operating ratios, computed as of December 31, 2016, fall within the benchmark ranges set forth in the Insurance Regulatory Information System of the National Association of Insurance Commissioners.

<u>Operating Ratios</u>	<u>Result</u>
Net premiums written to policyholders' surplus	42%
Adjusted liabilities to liquid assets	29%
Two-year overall operating	85%

Underwriting Ratios

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	\$10,168,861	62.53%
Other underwriting expenses incurred	6,578,119	40.45
Net underwriting gain (loss)	<u>(485,285)</u>	<u>(2.98)</u>
Premiums earned	<u>\$16,261,695</u>	<u>100.00%</u>

The Company's reported risk-based capital score ("RBC") was 2,273% as of December 31, 2016. 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.

F. Accounts and Records

Compliance with Department Regulation 96

The previous report on examination contained a recommendation that the Company comply with Part 62.2(b) of Department Regulation 96 by reporting all fire losses that exceed \$1,000 to Property Insurance Loss Register ("PILR") within five days of receipt of notice of such losses. During the current examination, the review of a sample of claim payment documentation did not show full compliance with the recommendation made in the previous report.

It is again recommended that the Company comply with Part 62.2(b) of Department Regulation 96 by reporting all fire losses that exceed \$1,000 to the Property Insurance Loss Register within five days of receipt of notice of such losses.

3. FINANCIAL STATEMENTS

A. Balance Sheet

The following shows the assets, liabilities and surplus as regards policyholders as of December 31, 2016, as reported by the Company.

Assets

	<u>Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>
Bonds	\$10,410,318		\$10,410,318
Preferred stocks	26,032		26,032
Common stocks	1,331,801		1,331,801
Properties occupied by the company	397,024		397,024
Cash, cash equivalents and short-term investments	521,721		521,721
Other invested assets	13,103	\$ 13,103	
Investment income due and accrued	101,027		101,027
Uncollected premiums and agents' balances in the course of collection	32,584		32,584
Deferred premiums, agents' balances and installments booked but deferred and not yet due	691,221		691,221
Net deferred tax asset	329,500	73,200	256,300
Furniture and equipment, including health care delivery assets	<u>176,607</u>	<u>176,607</u>	<u>0</u>
Total assets	<u>\$14,030,938</u>	<u>\$262,910</u>	<u>\$13,768,028</u>

Liabilities, Surplus and Other FundsLiabilities

Losses and loss adjustment expenses	\$ 989,725
Commissions payable, contingent commissions and other similar charges	280,068
Other expenses (excluding taxes, licenses and fees)	312,574
Taxes, licenses and fees (excluding federal and foreign income taxes)	2,578
Current federal and foreign income taxes	27,974
Unearned premiums	2,570,980
Advance premium	120,049
Ceded reinsurance premiums payable (net of ceding commissions)	<u>(13,974)</u>
 Total liabilities	 \$ 4,289,974

Surplus and Other Funds

Minimum required surplus	\$ 100,000
Unassigned funds (surplus)	<u>9,378,054</u>
Surplus as regards policyholders	<u>9,478,054</u>
 Total liabilities, surplus and other funds	 <u>\$13,768,028</u>

NOTE: The Internal Revenue Service did not audit any of 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 tax assessment and no liability has been established herein relative to such contingency.

B. Statement of Income

The net income for the five-year examination period as reported by the Company was \$1,308,471 as detailed below:

Underwriting Income

Premiums earned		\$16,261,695
Deductions:		
Losses and loss adjustment expenses incurred	\$10,168,861	
Other underwriting expenses incurred	<u>6,578,119</u>	
Total underwriting deductions		<u>16,746,980</u>
Net underwriting gain or (loss)		\$ (485,285)

Investment Income

Net investment income earned	\$ 1,792,739	
Net realized capital gain	<u>164,239</u>	
Net investment gain or (loss)		1,956,978

Other Income

Net gain or (loss) from agents' or premium balances charged off	\$ (8,255)	
Finance and service charges not included in premiums	229,943	
Miscellaneous income	<u>(90,535)</u>	
Total other income		<u>131,153</u>
Net income before federal income taxes		\$ 1,602,846
Federal and foreign income taxes incurred		<u>294,375</u>
Net income		\$ <u>1,308,471</u>

C. Capital and Surplus Account

Surplus as regards policyholders increased \$1,575,848 during the five-year examination period January 1, 2012 through December 31, 2016 as reported by the Company, detailed as follows:

Surplus as regards policyholders as reported by the Company as of December 31, 2011			\$7,902,206
	<u>Gains in Surplus</u>	<u>Losses in Surplus</u>	
Net income	\$1,308,471		
Net unrealized capital gains or (losses)	10,947		
Change in net deferred income tax	113,600		
Change in non-admitted assets	86,630		
Receipt of net operating loss tax refund	<u>56,200</u>	<u>\$0</u>	
Total gains and losses	\$1,575,848	\$0	
Net increase (decrease) in surplus			<u>1,575,848</u>
Surplus as regards policyholders as reported by the Company as of December 31, 2016			<u>\$9,478,054</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 \$989,725 is the same as that reported by the Company as of December 31, 2016. The examination analysis 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”).

The reported reserves are concentrated in the following lines: commercial multiple peril, other liability-occurrence, and homeowners’ multiple peril. Other liability-occurrence reserves are comprised of reserves for special multiperil policies (“SMP”), commercial fire policies, and dwelling fire/farm fire policies that have liability coverage.

5. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

The prior report on examination contained the following recommendation (page number refers to the prior report):

<u>ITEM</u>	<u>PAGE NO.</u>
A. <u>Accounts and Records</u>	
<u>Compliance with Department Regulation 96</u>	
i. It is recommended that the Company comply with Part 62.2(b) of Department Regulation 96 by reporting all fire losses that exceed \$1,000 to PILR within five days of receipt of notice of such losses.	8
The Company has not complied with this recommendation and a similar comment is made in this report.	

6. SUMMARY OF COMMENTS AND RECOMMENDATIONSITEMPAGE NO.A. Accounts and RecordsCompliance with Department Regulation 96

- i. It is again recommended that the Company comply with Part 62.2(b) of Department Regulation 96 by reporting all fire losses that exceed \$1,000 to the Property Insurance Loss Register within five days of receipt of notice of such losses. 8

Respectfully submitted,

_____/S/
Wayne Longmore
Associate Insurance Examiner

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

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

_____/S/
Wayne Longmore

Subscribed and sworn to before me

this _____ day of _____, 2021.

APPOINTMENT NO. 31699

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:*

Wayne Longmore

as a proper person to examine the affairs of the

Madison 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 5th day of January, 2018

MARIA T. VULLO
Superintendent of Financial Services

By:



Joan Riddell
Deputy Bureau Chief

