



**REPORT ON EXAMINATION
OF
MADISON MUTUAL INSURANCE COMPANY
AS OF DECEMBER 31, 2021**

**EXAMINER:
DATE OF REPORT:**

**LEON W. TAMBUE
MAY 18, 2023**

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KATHY HOCHUL
Governor



ADRIENNE A. HARRIS
Superintendent

March 27, 2024

Honorable Adrienne A. Harris
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 32356 dated March 1, 2022, attached hereto, I have made an examination into the condition and affairs of Madison Mutual Insurance Company as of December 31, 2021, 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.

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, 2016. This examination covered the five-year period from January 1, 2017, through December 31, 2021. 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, 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
- Holding company description
- Financial statement presentation
- Loss review and analysis
- 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

Madison Mutual Insurance 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 25 members. The board meets four times during each calendar year. At December 31, 2021, the board of directors was comprised of the following eight members:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Timothy Dale Burback New Hartford, New York	Retired
Christine Jeannette Coe Canastota, New York	Executive Assistant to the County Administrator for the Madison County Board of Supervisors
Martha Hanbidge Frey Cooperstown, New York	Congregational Facilities Director, Sisters of St. Francis of the Neumann Communities
Michael Joseph Krug Dalanson, New York	Retired
Beverly Louise Martin Brooktondale, New York	Retired
Harold Edward Oot Kirkville, New York	President and Chief Executive Officer, Seven O's, Inc.
John Charles Owens Jr. Plymouth, New York	President and Chief Executive Officer, Madison Mutual Insurance Company
Gary Nicholas Stam Fayetteville, New York	Financial Advisor, Stam Associates

As of December 31, 2021, the principal officers of the Company were as follows:

<u>Name</u>	<u>Title</u>
Harold Edward Oot	Chair
Martha Hanbidge Frey	Vice Chair
John Charles Owens Jr.	President and Chief Executive Officer
Christine Jeannette Coe	Secretary and Treasurer
Timothy Dale Burbach	Investment Officer
Heidi Kathryn Barron	Senior Vice President
Benjamin Michael Thompson	Vice President

B. Territory and Plan of Operation

As of December 31, 2017, the Company was licensed to write 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 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 and 41 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 written by the Company for the period under examination:

<u>Calendar Year</u>	<u>Direct Premiums</u>
2017	\$5,602,862
2018	\$5,852,783
2019	\$5,935,654
2020	\$6,275,166
2021	\$6,598,735

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

The Company predominantly writes commercial multiple peril and homeowners' multiple peril lines of business, which accounted for 56% and 30%, respectively, of the 2021 direct premiums written. The business is written through approximately 93 independent agents located throughout the upstate New York area.

C. Reinsurance Ceded

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	\$825,000 excess of 175,000 ultimate net loss each; limit \$2,475,000 each loss occurrence.
<u>Property Catastrophe Excess of Loss</u> 100% Authorized or Certified. (2 layers)	100% in excess of \$300,000 ultimate net loss, each occurrence. No claims shall be made unless the loss occurrence involves two or more risks.
<u>Property and Casualty</u> Excess of Loss Combined	\$175,000 in excess of \$175,000 each loss occurrence in the event of a loss occurrence involving at least one casualty and at least one property policy.

<u>Property and Casualty</u> Aggregate Excess of Loss	100% of \$1,000,000, Ultimate Net Loss, in excess of 62.5% of net premium earned, aggregate per loss occurrence.
<u>Casualty Excess of Loss</u> 100% Authorized or Certified 2 layers	\$1,000,000 excess of 175,000 each loss, each risk; liability of the reinsurer not to exceed \$825,000 and \$3,000,000 ultimate net loss each loss occurrence for the first and second layers, respectively.
<u>Equipment Breakdown</u> 100% Quota Share	100% up to \$5,000,000 any one accident, any one policy.

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.

All of the Company's reinsurance was with authorized or 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 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 Principles ("SSAP") No. 62R. Representations were supported by appropriate risk transfer analyses and 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

As of December 31, 2021, 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 Ratios

The Company's operating ratios, computed as of December 31, 2021, 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	41%
Adjusted liabilities to liquid assets	27%
Two-year overall operating	89%

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>Ratio</u>
Losses and loss adjustment expenses incurred	\$12,973,034	52.48%
Other underwriting expenses incurred	9,955,061	40.27%
Net underwriting gain (loss)	<u>1,793,776</u>	<u>7.26%</u>
Premiums earned	<u>\$24,721,871</u>	<u>100.00%</u>

The Company's reported risk-based capital ("RBC") score was 2,261.0% at December 31, 2021. The RBC score 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 score of 200% or below can result in regulatory action.

3. FINANCIAL STATEMENTS

A. Balance Sheet

The following shows the assets, liabilities and surplus as regards policyholders as of December 31, 2021, as reported by the Company:

<u>Assets</u>	<u>Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>
Bonds	\$13,268,169	\$ 0	\$13,268,169
Preferred stocks (stocks)	159,524	0	159,524
Common stocks (stocks)	3,420,196	0	3,420,196
Properties occupied by the company	359,644	0	359,644
Cash, cash equivalents and short-term investments	625,030	0	625,030
Investment income due and accrued	96,828	0	96,828
Uncollected premiums and agents' balances in the course of collection	34,441	5	34,436
Deferred premiums, agents' balances and installments booked but deferred and not yet due	1,064,782	0	1,064,782
Amounts recoverable from reinsurers	13,358	0	13,358
Current federal and foreign income tax recoverable and interest thereon	125,520	0	125,520
Net deferred tax asset	39,600	0	39,600
Electronic data processing equipment and software	11,466	11,466	0
Furniture and equipment, including health care delivery assets	<u>76,576</u>	<u>76,576</u>	<u>0</u>
Totals	<u>\$19,295,134</u>	<u>\$88,047</u>	<u>\$19,207,087</u>

Liabilities, Surplus and Other FundsLiabilities

Losses and loss adjustment expenses	\$1,643,083
Commissions payable, contingent commissions and other similar charges	361,925
Other expenses (excluding taxes, licenses and fees)	300,903
Taxes, licenses and fees (excluding federal and foreign income taxes)	3,920
Unearned premiums	3,280,033
Advance premium	187,127
Ceded reinsurance premiums payable (net of ceding commissions)	<u>(47,618)</u>
Total liabilities	\$5,729,373

Surplus and Other Funds

Unassigned funds (surplus)	<u>\$13,477,714</u>
Surplus as regards policyholders	<u>\$13,477,714</u>
Total liabilities, surplus and other funds	<u>\$19,207,087</u>

Note: The Internal Revenue Service has not audited tax returns covering tax years 2017 through 2021. 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 \$3,361,465 as detailed below:

Underwriting Income

Premiums earned		\$24,721,871
Deductions:		
Losses and loss adjustment expenses incurred	\$12,973,034	
Other underwriting expenses incurred	<u>9,955,061</u>	
Total underwriting deductions		<u>22,928,095</u>
Net underwriting gain or (loss)		\$ 1,793,776

Investment Income

Net investment income earned	\$1,994,754	
Net realized capital gain	<u>141,859</u>	
Net investment gain or (loss)		2,136,613

Other Income

Net gain or (loss) from agents' or premium balances charged off	\$ 75,372	
Finance and service charges not included in premiums	210,143	
Aggregate write-ins for miscellaneous income	<u>1,743</u>	
Total other income		<u>287,258</u>
Net income before dividends to policyholders and before federal and foreign income taxes		<u>\$ 4,217,647</u>
Net income after dividends to policyholders but before federal and foreign income taxes		\$ 4,217,647
Federal and foreign income taxes incurred		<u>856,182</u>
Net Income		<u>\$ 3,361,465</u>

C. Capital and Surplus

Surplus as regards policyholders increased \$3,999,660 during the five-year examination period January 1, 2017, through December 31, 2021, as reported by the Company, detailed as follows:

Surplus as regards policyholders per report on examination as of December 31, 2016			\$ 9,478,054
	<u>Gains in</u>	<u>Losses in</u>	
	<u>Surplus</u>	<u>Surplus</u>	
Net income	\$3,361,465		
Net unrealized capital gains or (losses)	597,432		
Change in net deferred income tax		\$134,100	
Change in non-admitted assets	<u>174,863</u>	<u>0</u>	
Total gains and losses	\$4,133,760	\$134,100	
Net increase (decrease) in surplus			\$ <u>3,999,660</u>
Surplus as regards policyholders per report on examination as of December 31, 2021			<u>\$13,477,714</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 \$1,643,083 is the same as reported by the Company as of December 31, 2021. The examination analysis of the loss and loss adjustment expense reserves was conducted in accordance with actuarial standards of practice and statutory accounting principles, including SSAP No. 55.

5. **COMPLIANCE WITH PRIOR REPORT ON EXAMINATION**

The prior report on examination contained one (1) recommendation as follows:

<u>ITEM</u>	<u>PAGE NO.</u>
A. <u>Accounts and Records</u>	
<u>Compliance with Department Regulation 96</u>	
i. It was 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 complied with this recommendation.	

8. **SUMMARY OF COMMENTS AND RECOMMENDATIONS**

This report has no comments or recommendations.

Respectfully submitted,

_____/S/_____
Leon W. Tambue
Senior Insurance Examiner

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

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

_____/S/_____
Leon W. Tambue

Subscribed and sworn to before me

this _____ day of _____, 2024.

NEW YORK STATE

DEPARTMENT OF FINANCIAL SERVICES

I, Adrienne A. Harris, 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:

Leon Tambue

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 1st day of March, 2022

*ADRIENNE A. HARRIS
Superintendent of Financial Services*

By:

Joan Riddell

*Joan Riddell
Deputy Bureau Chief*

