

# Dryden *review*

## December 2006

This newsletter is intended to discuss issues of current interest to agents who represent Dryden Mutual. This is written as the rough equivalent of topics that would be covered in a current marketing visit from our professional staff. Please try to share this letter with those people in your agency that work with us on a daily basis.

### SUMMARY of KEY 2006 FINANCIAL STATISTICS for DRYDEN MUTUAL

Dryden Mutual continues a run of very favorable financial results for the past 10 years in a row. The following financial numbers are identical to those submitted to the National Association of Insurance Commissioners (NAIC) and the New York State Insurance Department on our Quarterly Statements filed for the past 5 consecutive years through each September 30<sup>th</sup>. The values of Dryden Mutual's surplus in the third quarters of 2004 through 2006 include a \$6,000,000 surplus note taken to support the hard market high levels of growth experienced in 2001-2003. But, even if the surplus note value were subtracted, Dryden Mutual's surplus would still have grown substantially through the third quarters of 2004 through 2006 due to the statutorily positive effects of a slowing down in the company's rate of growth.

	<u>09-30-02</u>	<u>09-30-03</u>	<u>09-30-04</u>	<u>09-30-05</u>	<u>09-30-06</u>
Direct Written Premium	\$18,401,768	\$23,169,637	\$26,528,729	\$28,792,987	\$29,919,715
YTD Growth Rate	+ 26.59%	+ 25.91%	+14.50%	+8.54%	+ 3.91%
Net Admitted Assets	\$38,696,541	\$46,305,046	\$61,539,005	\$73,887,375	\$84,456,024
Net Income Before Taxes	\$ 1,978,524	\$ 2,637,154	\$ 6,103,186	\$ 6,623,199	\$ 8,009,032
Policyholder Surplus	\$14,363,941	\$16,181,987	\$27,693,934	\$33,812,320	\$41,021,839
<b>Combined (Trade) Ratio</b>	<b>88.00</b>	<b>88.08</b>	<b>77.54</b>	<b>78.43</b>	<b>75.48</b>

### PLANS for 2007

While the high levels of continuing profitability demonstrated above are something to be proud of, most of our competitors in the industry are also experiencing some of the most favorable combined ratios in their histories! Dryden Mutual definitely wants to place emphasis on finding growth opportunities for 2007, but so does everyone else. Since this is exactly the same scenario for most other companies active in the New York State market, these conditions are really just pushing everyone ever further into a deepening "soft market" cycle. In this part of our industry's business cycle rates of growth will not only continue slowing, but will actually turn negative for the overall market (as actually happened in NYS in 1997, 1998 and 1999 at the tail-end of the last soft market cycle). As optimists, Dryden Mutual's published plan is to anticipate growth in 2007 around +4.7% just enough to cover the actual anticipated inflation in our underlying expenses.

## DRYDEN MUTUAL in the NEW YORK STATE MARKET

A local research project done every year by Dryden Mutual management reveals fascinating details of how things really turn out in just New York State as opposed to the “big picture” national results that are typically reported in the trade press. This research is used to try to better understand what has happened to all 312 companies that actually wrote business in our state at any point during 2005 and how their specific lines of business performed in terms of both growth and loss ratios. It is interesting to note that without writing either automobile or workers compensation, or even writing significantly downstate, Dryden Mutual still ranked as the 93<sup>rd</sup> largest overall property-casualty insurance company doing business in New York State at the end of 2005. According to A.M. Best’s DataBase Services, Dryden Mutual has even higher market share ranking in just those specific lines of business that the company actually writes in NYS:

32 <sup>nd</sup> in NYS on Fire & Allied Lines - 171 reporting companies	[Annual Statement Lines 01 & 02]
27 <sup>th</sup> in NYS for Farmowners Multi-Peril - 39 reporting companies	[NAIC Statement Line 03]
41 <sup>st</sup> in NYS for Homeowners Multi-Peril - 104 reporting companies	[NAIC Statement Line 04]
34 <sup>th</sup> in NYS for Commercial Multi-Peril – 138 reporting companies	[NAIC Statement Line 05]
49 <sup>th</sup> in NYS for Inland Marine – 161 reporting companies	[NAIC Statement Line 09]
68 <sup>th</sup> in NYS for Other Liability – 201 reporting companies	[NAIC Statement Lines 17.1 & 17.2]

## RESIDENTIAL COST ESTIMATORS FOR 2007

Dryden Mutual underwriters will continue using the Saylor Publications residential cost estimator in conjunction with Underwriters Rating Bureau (URB) with an update to be issued early in 2007. Although this estimator is never perfect, it is also being used by many other Upstate New York property companies in Dryden Mutual’s peer group, so it is the best available to us. We will also continue to accept detailed, current cost estimators provided by other carriers since no one system has a monopoly on coming up with reasonably adequate insurable values. However, our underwriters will continue to challenge replacement costs on structures that appear to be well under \$100 a square foot as our rule-of-thumb. We still find that most insured contractors are working at well above \$100 per square foot on fairly ordinary new construction in Upstate New York after the skyrocketing costs of building materials, contractor’s general liability and workers compensation all get factored in. A very recent random survey on construction costs from a wide variety of builders reveals per square foot construction averaging \$106 per square foot on a wide range of house sizes in advertised new construction in Central New York (after subtracting for average lot value of \$30,000 from the advertised overall costs). This survey reinforces our belief that the continuing use of a \$100 per square foot “floor” is still a quite reasonable (if even conservative) average benchmark for insurance-to-value purposes for estimating reconstruction costs on replacement cost policies as we move into 2007.

<u>Square Footage of House</u>	<u>Advertised Price</u>	<u>New Home Square Foot Cost</u>	<u>Adjusted after Lot Cost Removed</u>
1,533	\$199,000	\$129	\$110
1,580	\$174,500	\$110	\$ 91
1,640	\$190,200	\$116	\$ 97
1,733	\$234,900	\$136	\$118
1,734	\$224,000	\$129	\$112
1,760	\$180,500	\$102	\$ 85
1,785	\$194,900	\$109	\$ 92
1,795	\$216,900	\$121	\$104
2,012	\$329,950	\$164	\$149
2,272	\$219,900	\$ 97	\$ 84
2,404	\$269,400	\$112	\$100
2,417	\$249,000	\$103	\$ 91
2,435	\$267,940	\$110	\$ 98
2,520	\$399,000	\$158	\$146

<u>Square Footage of House</u>	<u>Advertised Price</u>	<u>New Home Square Foot Cost</u>	<u>Adjusted after Lot Cost Removed</u>
2,570	\$399,000	\$155	\$144
2,636	\$254,900	\$ 97	\$ 85
2,639	\$246,900	\$ 94	\$ 82
2,720	\$295,000	\$108	\$ 97
2,856	\$346,000	\$121	\$109
2,889	\$339,000	\$117	\$107
2,936	\$299,900	\$102	\$ 92
3,001	\$369,900	\$123	\$113
3,086	\$277,700	\$ 90	\$ 80
3,103	\$349,900	\$113	\$103
3,103	\$354,900	\$114	\$105
3,123	\$419,900	\$134	\$125
3,521	\$409,900	\$116	\$108
3,547	\$549,000	\$155	\$146
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Survey Average in November 2006		\$119	\$106

### **2007 INFLATION FACTOR ON RENEWALS**

As we enter 2007, insurance-to-value remains in a crisis. Our cost estimator vendor advised us that building cost inflation has averaged 6.2% and that is the factor that we will begin applying to all commercial and residential property building coverages on renewals in 2007 to replace the 4.0% factor we have been applying in the past several years.

### **BATTLEFIELD EARTH**

Out-of-state regulators and national consumer advocates keep accusing the insurance industry of incompetence and collusion because the industry failed to provide wild fire victims in Southern California and the hurricane victims along the Gulf Coast with enough claim dollars to actually rebuild their houses after recent widespread natural disasters even after every penny is paid out on policy limits! But, we also know that almost every single person reading this newsletter spends a part of working days in an agency career debating proper insurance to value with customers.

Many, if not most, clients want to minimize coverage in order to save premium dollars, and therefore want to insure structures to only a perceived market value despite the fact that actual replacement or reconstruction values after a total loss are almost inevitably much, much higher. Selling full replacement cost or even higher reconstruction cost policies is universally viewed by the public as price gouging of consumers. But after every widespread catastrophe, public advocates always turn around to tell a very different story, and the industry always gets the blame for not having overcome the stiff objections of their clients to purchasing available insurance options before the losses actually occurred. Studies consistently show that 50% to 70% of all Americans underinsure their properties and that 60% to 80% of people who live in flood and earthquake zones never bother buy the flood or earthquake coverages that are readily available.

A good local example of this behavior is that in late 2006, fewer than 43% of Dryden Mutual's own homeowners customers have ever bothered to purchase our independently filed and very broad package of coverage offerings under our "VIP" endorsement (that has been offered for 8 years). This unique endorsement protects against a wide variety of loss scenarios including winter storm indirect losses, back-up of drains, contingent code rebuilding costs, and types of earth movement (not just earthquake) that are not covered anywhere else! But, all we can do as insurance professionals is doggedly keep pointing out how relatively inexpensive it is to insure to higher, more appropriate limits and to purchase reasonably priced proper coverages BEFORE losses occur.

## **TRUSTED CHOICE**

Dryden Mutual has made a very unusual decision to become one of the few insurance companies operating in New York State to join the Independent Insurance Agents & Brokers of America's national branding campaign known as "Trusted Choice." Although thousands of independent insurance agents have signed up to financially support the IIABA's "Trusted Choice" program, at this writing only 45 companies based anywhere across America have actually seen the value of signing on. Some national carriers seemed miffed that an Upstate New York domestic company would join their ranks on a national issue that should be their exclusive purview, but a company like Dryden Mutual is also a much bigger national financial supporter of InVEST than almost all national carriers. Our philosophy is that if it is the right thing to do, you should do it no matter how others may perceive your role in the industry and regardless of the relative size of your market share.



**"The smart way to buy insurance"**

## **MILITARY FAMILIES**

Although it is sad to have to repeat this message every year at this time, please join us in again wishing a safe return home for all our brave men and women serving in the armed services across the world during these troubled times. All Dryden Mutual underwriters, billing staff and claims adjusters continue to be instructed to accommodate unusual insurance circumstances that the families of deployed military may face. At the end of 2006, our wish for a safe return applies especially to the Army's 10<sup>th</sup> Mountain Division based near Watertown, as well as to reserve and national guard units throughout Upstate New York whose soldiers are continuing to face extended and even repeated deployments to combat zones.

## **SEASONS GREETINGS**

The Directors and Employees of Dryden Mutual wish the best to all our agency staff and their families during this holiday season. We continue to be grateful for the continued support you provide to our franchise in Upstate New York. Thank you for your part in making 2006 one of the better years in the history of Dryden Mutual. We all look forward to growing the continuing partnership in 2007.

**Robert B. Baxter, CPCU, CIC**  
**CEO & General Manager**

**Also visit our website at [www.drydenmutal.com](http://www.drydenmutal.com) to learn more!**