



# Dryden review

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## December 2008

This newsletter is intended to address issues of general interest to Dryden Mutual agents. It is essentially the written equivalent of a marketing visit from one of our professional staff. Please share this newsletter with those in your agency who work with Dryden Mutual on a daily basis.

### Summary Of Key 2008 Financial Statistics For Dryden Mutual

Dryden Mutual continues a run of favorable financial results that now extends over the past decade. The following financial numbers were submitted to the National Association of Insurance Commissioners (NAIC) and the New York State Insurance Department on our Quarterly Statements. These statements were filed over the past 5 years through each third quarter.

	<u>09-30-04</u>	<u>09-30-05</u>	<u>09-30-06</u>	<u>09-30-07</u>	<u>09-30-08</u>
Direct Written Premium	\$26,528,729	\$28,792,987	\$29,919,715	\$30,166,406	\$31,168,665
YTD Growth Rate	+14.50%	+8.54%	+3.91%	+0.82%	+3.32
Net Admitted Assets	\$61,539,005	\$73,887,375	\$84,456,024	\$94,777,647	\$102,205,156
Policyholder Surplus	\$27,693,934	\$33,812,320	\$41,021,839	\$47,611,971	\$55,434,404
<b>Combined (Trade) Ratio</b>	<b>77.54</b>	<b>78.43</b>	<b>75.48</b>	<b>80.90</b>	<b>74.95</b>

### Plans for 2009

The current worldwide financial crisis is forcing the American economy to go deeper into a potentially long recession. This will temper growth expectations for every insurance company in the coming year. However, Dryden Mutual is committed to maintaining 3 full-time outside marketing representatives, based across Upstate New York. The intention is to keep a steady focus on growth potential in all our territories in 2009.

Our published plan for 2009 is to anticipate growth around +4.0% to try and cover the anticipated inflation in our underlying expenses. As current market conditions continue, we know any growth will be a real battle. There is also a growing likelihood of a distressed marketplace in reaction to the insurance industry's rapid surplus dissipation via the disappearance of both underwriting and investment income.

### Impact Of Financial Crisis On Dryden Mutual

A.M. Best has done an extensive analysis on the impact of this financial crisis on nearly every American insurance company, including Dryden Mutual. The sudden drop in some asset values wiped out some of our profits in the third quarter of 2008. Fortunately, we were still able to add \$1,000,000 to our surplus in the same quarter, despite the collapse of financial markets in September! A.M. Best is finding that, much like small regional banks, most domestic and small regional carriers are the "safest bets" for your customers. These smaller financial entities were not sophisticated enough to take on large exposures to sub-prime mortgages and derivatives based on credit default potentials. Therefore, the vast majority of the financial crisis is falling on large national banks and on major national carriers.

### A.M. Best Releases Another "A" Rating In 2008

On 11-14-08, A.M. Best released a renewal of Dryden Mutual's "A" rating. This "A" rating comes with A.M. Best's financial size category (FSC) of "VII", which is important to some certificate holders. This is in no small part a reflection of doubling our surplus 4 short years, as seen in the above chart.

### Residential Cost Estimators for 2009

Our 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 2009. That update will reflect a 3.2% increase in the base costs. Although this estimator is never perfect, it is used by many Upstate New York property companies in our peer group and we consider it the best available to us. We will continue to accept detailed, current cost estimators from other carriers, due to the fact that no one system is flawless in providing reasonably adequate insurable values.

### 2009 Inflation Factor On Renewals

As we enter 2009, insurance-to-value remains far from adequate. Although our cost estimator vendor has advised us that building cost inflation has averaged 3.2%, Dryden Mutual must renew policies with a minimum 4% increase on all commercial and residential property building coverages. This will take effect on renewals after March 1, 2009. The 4% inflation factor is the minimum in keeping with the standard inflation guard endorsements on most policies. Certainly if an insured has chosen an annual inflation percentage greater than the standard 4%, we will increase as per the actual percentage.

### Commercial Coverage Tips

Due to the prevalent use of stock carrier commercial BOP's, many customers and agency staff incorrectly assume automatic coverages for some of Dryden Mutual's major specialty classes of business. To compensate for these assumptions, effective with 12-01-08 new business and 01-01-09 renewals, our Commercial Lines Underwriters have started automatically adding the URB SF-133 Business Property Off Premise coverage to the club class. This makes sense for clubs that already have the LS-5 or LS-6 (off premise liability coverage).

From time to time, many types of contractors are required to perform digging work, regardless of the major classification is used to describe and rate their primary work. That being the case, on new business effective 10-01-08 and renewals effective 11-01-08, our underwriters have also started adding the LS-26 Underground coverage to all Craft/12 contractor liability policies. The coverage is important and is generally assumed, so it will be added automatically unless the contractor signs a statement that the coverage is never needed.

In addition, beginning 01-01-09, we will adjust the minimum premium binder charges for inland marine to a \$25 minimum premium for equipment \$49,999 & under and a new \$50 minimum premium for equipment \$50,000 and above.

### Snowplowing Issues

Dryden Mutual offers completed operations liability for seasonal residential and light commercial snowplowing done by contractors that we already insure for their main operations (i.e. landscapers, carpenters, etc.). However, our underwriters continually struggle to weed out snowplowing operations whose exposures exceed the small premium charge applied to accommodate small regular-season contractors. The basic intent is to cover only residential driveway plowing and small commercial plowing operations (offices, gas stations, restaurant lots, etc.) in which the contractor uses his own vehicle. Our underwriters try to avoid contractors who do snowplowing work, often with specialized equipment, on large parking lots with high traffic such as strip malls, shopping malls and grocery stores.

### Branding in 2009

In late 2006, Dryden Mutual formally joined IIABA's "Trusted Choice" branding initiative and will continue to support it during 2009. In mid-2008, we also agreed to be part of the PIA's Branding Program on the main street America theme and will continue that support as well. The idea behind both branding campaigns is to support and promote the independent agency system besieged by TV direct sales attempting to commoditize the nature of intelligent risk transfer.

### Military Families

Although it saddens us to repeat this message so often, please join us in wishing a safe return for all our brave men and women serving in the armed services during these troubled times. At the end of 2008, our wish for a safe return applies to the Army's 10th Mountain Division based near Watertown, many of whom are on their 2nd, 3rd or even 4th tours of duty. And finally, our best wishes go out to reserve and national guard units throughout Upstate New York, whose members also face extended deployments to active combat zones. All Dryden Mutual underwriters, billing staff and claims adjusters are instructed to accommodate unusual insurance circumstances that the families of deployed military may face in wartime.

### 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 are most grateful for your continued support of our franchise in Upstate New York. Thank you for your part in making 2008 one of our very best years. We all look forward to continuing our growing partnership in 2009.

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

