

December 2005

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 share this letter with people in your agency that work with us.

SUMMARY of KEY 2005 FINANCIAL STATISTICS for DRYDEN MUTUAL

Dryden Mutual has continued a favorable run of financial results by reporting a combined ratio under "100" for 9 years in a row now. 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 Annual Statements filed for the past 5 consecutive years through the third quarter in each year. The values of Dryden Mutual's surplus in the third quarter of 2004 and 2005 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 is subtracted, Dryden Mutual's surplus would still have grown +34% and +28% through the third quarters of 2004 and 2005 due to the statutorily positive effects of slowing down the company's rate of growth.

	<u>09-30-01</u>	<u>09-30-02</u>	<u>09-30-03</u>	<u>09-30-04</u>	<u>09-30-05</u>
Direct Written Premium	\$14,536,960	\$18,401,768	\$23,169,637	\$26,528,729	\$28,792,987
YTD Growth Rate	+ 19.31%	+ 26.59%	+ 25.91%	+14.50%	+8.54%
Net Admitted Assets	\$32,848,664	\$38,696,541	\$46,305,046	\$61,539,005	\$73,887,375
Net Income Before Taxes	\$ 611,128	\$ 1,978,524	\$ 2,637,154	\$ 6,103,186	\$ 6,623,199
Policyholder Surplus	\$12,471,525	\$14,363,941	\$16,181,987	\$27,693,934	\$33,812,320
Combined (Trade) Ratio	99.87	88.00	88.08	77.54	78.43

PLANS for 2006 = FOCUS on GROWTH!

With the high levels of continuing profitability demonstrated above, Dryden Mutual definitely wants to place emphasis on growth opportunities for 2006. The key point is that Dryden Mutual has been able to grow our surplus fast enough in the past 2 years to overcome concerns about capacity to handle any level of growth offered to us in the new year. The concerns over high growth in early 2004 have completely dissipated with the changes in market conditions from hard to softening. Although Dryden Mutual's published plan is to try to anticipate growth in 2006 around +6.5%, as 2005 closes we still see signs of a market that is continuing to become more competitive. Growing anywhere over 5% in 2006 may be quite a stretch in a NYS market that actually may be going in reverse in terms of absolute premium growth!

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 national results reported in the trade press. This research is used to try to better understand what has happened to all 309 companies that actually wrote business in our state at any point during 2004 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 has still evolved into ranking as the 91st largest overall property-casualty insurance

company doing business in New York State at the end of 2004. According to A.M. Best's DataBase Services, Dryden Mutual has even higher market share ranking on those individual lines of business that we actually do write:

24 th in NYS for Commercial and Residential Fire	[NAIC Statement Line 01]
34 th in NYS for Commercial Multi-Peril	[NAIC Statement Line 05]
44 th in NYS for Homeowners Multi-Peril	[NAIC Statement Line 04]
46 th in NYS for Inland Marine	[NAIC Statement Line 09]
71 st in NYS for Other Liability	[NAIC Statement Line 17]

RESIDENTIAL COST ESTIMATORS FOR 2006

In 2006, Dryden Mutual underwriters will continue using the Saylor Publications residential cost estimator in conjunction with Underwriters Rating Bureau (URB). Although this newer estimator is not 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 at this time. 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. 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 many fully insured contractors are working in the \$130 to \$150 per square foot on fairly ordinary new construction in Upstate New York after the skyrocketing costs of building materials (and contractor's insurance) are factored into the costs.

As we enter 2006, insurance-to-value remains in a crisis. Many out-of-state regulators and national consumer advocates are accusing the insurance industry of incompetence and collusion because the industry failed to provide wild fire victims in Southern California, and hurricane victims along the Gulf Coast and Florida 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 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 that 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, it is always a very different story and the industry gets the full blame for not having overcome the stiff objections of their clients before the losses. 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 buy the flood or earthquake coverages that are available. A good local example of this behavior is that fewer than 40% of Dryden Mutual's own homeowners customers ever bother to purchase our independently filed and very broad coverage offerings under our VIP endorsement that protects against winter storm indirect losses and types of earth movement not covered anywhere else! All we can do as insurance professionals is doggedly keep pointing out how important it always is to insure to higher, more appropriate limits and purchase proper coverages before losses occur.

CRAFT VENDORS and OFF-PREMISES CONTENTS

Craft vendors at farmers markets, shopping malls and fairs continue to be one of Dryden Mutual's most frequently issued types of commercial policies. Our Claims Department has pointed out that many craft vendor policies get issued without coverage for contents off-premises, yet most of these risks obviously take contents off premises for display at markets and malls. Our decision has been to simply start doing it right the first time. Dryden Mutual commercial underwriters have started to automatically add off-premises contents coverage for craft vendors using SF-133 with a requirement for coinsurance at 80% of ACV. If your insured does not need this coverage, we will endorse the SF-133 off with a signed statement from the insured that will remain on file.

COMMERCIAL LINES RENEWAL QUOTATION PROCESS

As previously announced, in 2006, Dryden Mutual commercial lines underwriters will cease providing renewal quotations on renewals that produce \$750 or lower annual premiums. Instead, these small premium policies will be automatically renewed approximately 40 days prior to the expiration date. The renewals of small commercial policies will be mailed to our agents along with the traditional quotation worksheets. It is our observation that most such policies do not involve structures, instead just cover contents and general liability that almost 100% renew "as is." However, commercial policies renewing at premiums above \$750 will continue to be quoted 60 days in advance for review and approval by our agencies since buildings are more likely to be involved. If we receive no different renewal instructions, then we will proceed to automatically renew policies over \$750 as quoted approximately 40 days in advance of expiration dates.

MILITARY FAMILIES

Although we are saddened 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 2005, our wish for a safe return applies especially to the Army's 10th 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/or 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 2005 one of the better years in the history of Dryden Mutual. We all look forward to growing the continuing partnership in 2006.

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