

Report
of the
Examination of
Price County Town Mutual Insurance Company
Phillips, Wisconsin
As of December 31, 2014

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State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

Scott Walker, Governor
Theodore K. Nickel, Commissioner

Wisconsin.gov

June 25, 2015

125 South Webster Street • P.O. Box 7873
Madison, Wisconsin 53707-7873
Phone: (608) 266-3585 • Fax: (608) 266-9935
E-Mail: ociinformation@wisconsin.gov
Web Address: oci.wi.gov

Honorable Theodore K. Nickel
Commissioner of Insurance
State of Wisconsin
125 South Webster Street
Madison, Wisconsin 53703

Commissioner:

In accordance with your instructions, an examination has been performed as of
December 31, 2014, of the affairs and financial condition of:

PRICE COUNTY TOWN MUTUAL INSURANCE COMPANY
Phillips, Wisconsin

and the following report thereon is respectfully submitted:

I. INTRODUCTION

The previous examination of Price County Town Mutual Insurance Company (the company) was made in 2010 as of December 31, 2009. The current examination covered the intervening time period ending December 31, 2014, and included a review of such subsequent transactions deemed essential to complete this examination.

The "Summary of Examination Results" contains elaboration on all areas of the company's operations. Special attention was given to the action taken by the company to satisfy the recommendations and comments made in the previous examination report.

The company is annually audited by an independent public accounting firm as prescribed by s. Ins 50.05, Wis. Adm. Code. An integral part of this compliance examination was the review of the independent accountant's work papers. Based on the results of the review of these work papers, alternative or additional examination steps deemed necessary for the completion of this examination were performed. The examination work papers contain

documentation with respect to the alternative or additional examination steps performed during the course of the examination.

The company was originally organized as a town mutual insurance company on May 18, 1901, under the provisions of the then existing Wisconsin Statutes. The original name of the company was the Price County Farmers Mutual Fire Insurance Company of Phillips, Wisconsin. Subsequent amendments to the company's articles and bylaws changed the company's name to that presently used.

During the period under examination, there were no amendments to the articles of incorporation and no amendments to the bylaws.

The company is currently licensed to write property, including windstorm and hail, and nonproperty insurance. The company is currently licensed to write business in the following counties:

Ashland	Rusk
Lincoln	Sawyer
Oneida	Taylor
Price	Vilas

A review was made of the policy and application forms currently used by the company. The company issues approved policies with or without endorsements for terms of one or three years with premiums payable on the advance premium basis. All policies are charged a \$20.00 annual policy fee. Aside from the annual policy fee, policies on installments will be charged a \$5.00 installment fee on the 2nd, 3rd, and 4th billings as applicable.

Business of the company is acquired through ten agents, one of whom is a director of the company. Agents currently receive a 12% commission, except for the company director who is paid a salary as Manager/Secretary/Treasurer and does not receive a commission.

Only directors have the authority to adjust losses; non-director agents have no authority to adjust losses. If a loss settlement is over \$2,500, two signatures are needed to pay the claim. Directors are paid \$12.00 per hour plus mileage (at the IRS mileage rate) for adjusting and inspections.

Policyholders may participate in the management and control of the company by attending and voting at all annual or special meetings of the members. No member may vote by

proxy. The annual meeting of the company for the election of directors and special meetings of the company are held in accordance with its articles of incorporation.

Board of Directors

The board of directors consists of nine members divided into three classes. One class is elected at each annual meeting for a term of three years. Vacancies on the board may be filled by the directors for the interim to the next annual meeting when a director shall be chosen for the unexpired term.

The current board of directors consists of the following policyholders of the company:

Name	Principal Occupation	Residence	Expiry
Edward Hainy	Farmer	Phillips, WI	2016
Duane Lind	Diesel Mechanic	Phillips, WI	2016
Mark Nyberg	Substitute School Teacher	Ogema, WI	2016
Paul Rose, Jr.	Road Maintenance	Butternut, WI	2017
Leonard Schmidt	Carpenter Contractor	Park Falls, WI	2017
Donald Onchuck	Farmer	Phillips, WI	2017
Karen Koch *	Manager/Secretary/Treasurer	Catawba, WI	2018
George Valiga	Mink Rancher	Phillips, WI	2018
Dale Raleigh	Logger and Farmer	Brantwood, WI	2018

* Directors who are also agents are identified with an asterisk. Karen Koch replaced Rudy Haubert as a director in 2015.

Members of the board currently receive \$50.00 for each regular meeting attended and \$100.00 for all-day meetings. All board members receive the federal mileage rate per mile for travel expenses.

Section 612.13 (1m), Wis. Stat., requires after April 30, 2006:

- (1) If a town mutual has fewer than nine directors, no more than one director may be an employee or representative of the town mutual; and
- (2) Employees and representatives of a town mutual may not constitute a majority of its board.

The company is in compliance with these requirements.

Officers

Officers are elected by the board of directors from among its members and hold office for one year or until their successors are duly elected and qualified. Officers serving at the present time are as follows:

Name	Office	2014 Annual Compensation
Paul Rose, Jr.	President	\$ 981
Leonard Schmidt	Vice-President	945
Rudy Haubert	Secretary	0
Rudy Haubert	Treasurer	0
Karen Koch	Manager	37,244

Reported compensation is the total compensation paid by the insurer for the year and includes salary, commissions, and director fees and mileage as applicable. The board President receives a \$200 per year salary and the Vice-President receives a \$100 salary. Karen Koch succeeded Rudy Haubert as Secretary/Treasurer of the company in 2015 and remains its manager.

Committees of the Board

The company's bylaws allow for the formation of certain committees by the board of directors. The committees at the time of the examination are listed below:

Adjusting Committee	Investment Committee
Leonard Schmidt	Leonard Schmidt
Rudy Haubert	Rudy Haubert
Duane Lind	Mark Nyberg
Karen Koch	Karen Koch (non-voting)

Karen Koch has replaced Rudy Haubert as of January 2015 and was appointed to his former positions at the 2015 annual meeting of the company.

Growth of Company

The growth of the company since the previous examination as compiled from its filed annual statements was as follows:

Year	Net Premiums Earned	Policies In Force	Net Income	Admitted Assets	Policyholders' Surplus
2014	\$556,567	1,715	\$ (7,640)	\$1,852,930	\$1,314,341
2013	500,355	1,730	111,941	1,700,332	1,199,409
2012	493,478	1,727	56,742	1,558,817	1,075,412
2011	471,858	1,742	(83,716)	1,591,155	1,111,091
2010	486,832	1,739	(50,246)	1,678,689	1,202,610
2009	495,149	1,772	57,757	1,716,015	1,233,530

The ratios of gross and net premiums written to surplus as regards policyholders since the previous examination were as follows:

Year	Gross Premiums Written	Net Premiums Written	Policyholders' Surplus	Writings Net	Ratios Gross
2014	\$889,915	\$555,129	\$1,314,341	42.2%	67.7%
2013	886,253	507,966	1,199,409	42.4	73.9
2012	869,988	491,884	1,075,412	45.7	80.9
2011	848,751	481,741	1,111,091	43.4	76.4
2010	844,569	479,394	1,202,530	39.9	70.2
2009	867,715	488,049	1,233,530	39.6	70.3

For the same period, the company's operating ratios were as follows:

Year	Net Losses and LAE Incurred	Other Underwriting Expenses Incurred	Net Premiums Earned	Loss Ratio	Expense Ratio	Composite Ratio
2014	\$378,184	\$238,956	\$556,567	67.9%	43.0%	110.9%
2013	147,965	252,654	500,355	29.6	49.7	79.3
2012	236,038	235,786	493,478	47.8	47.9	95.7
2011	361,059	236,448	471,858	76.5	49.1	125.6
2010	362,582	235,444	486,832	74.5	49.1	123.6
2009	268,391	214,708	495,149	54.2	44.0	98.2

The company's recent results have fluctuated due to the variability in losses, which is not unusual for small insurers that are subject to occasional large losses from fire and storm events. The number of policies in force has remained relatively stable during the examination period. The company's expense ratio has varied between 43% in 2014 for a low and 49.7% for a high in 2013 during the examination period. The decrease in the expense ratio in 2014 is related to lower printing expenses.

II. REINSURANCE

The examiners' review of the company's reinsurance portfolio revealed there is currently one ceding treaty. The treaty contained a proper insolvency clause and complied with s. Ins 13.09 (3), Wis. Adm. Code, concerning maximum wind loss. Company retentions of risk complied with s. Ins 13.06, Wis. Adm. Code.

Reinsurer:	Wisconsin Reinsurance Corporation
Effective date:	January 1, 2015
Termination provisions:	At any January 1 by either party giving 90 days' prior written notice

The coverage provided under this treaty is summarized as follows:

- | | |
|-------------------------|--|
| Type of contract: | Casualty Excess of Loss Reinsurance – Exhibit AX1 (06-13) WI |
| Lines reinsured: | All casualty or liability business written by the company. |
| Company's retention: | \$2,500 |
| Coverage: | 100% of each and every loss occurrence, including loss adjustment expense, in excess of the company's retention subject to the maximum policy limits of: <ol style="list-style-type: none">\$1,000,000 per occurrence, single limit, combined for bodily injury and property damage liability\$1,000,000 split limits, in any combination of bodily injury and property damage liability\$25,000 for medical payments, per person\$25,000 for medical payments, per accident for personal lines |
| Reinsurance premium: | 65.00% of premium written |
| Annual deposit premium: | \$70,850 |
- | | |
|----------------------|--|
| Type of contract: | First Surplus Reinsurance – Exhibit B1 |
| Lines reinsured: | All property business written by the company |
| Company's retention: | \$200,000
When the company's first surplus liability in respect to a risk exceeds the retention, the company may cede on a pro rata basis and the reinsurer shall accept up to \$2,000,000 of pro rata reinsurance coverage of such risk. Any single location which is in excess of \$2,500,000 of property coverage, or otherwise beyond the terms, conditions, and limitations of the contract, may be submitted to the reinsurer for special acceptance. |

Coverage:	Pro rata share of each and every loss, including loss adjustment expense, corresponding to the amount of the risk ceded by the company as it bears to the company's gross liability on such risk
Commission rate:	15.00%
Profit commission rate:	15.00%
Reinsurance premium:	Pro rata portion of the subject premium
Annual deposit premium:	\$97,160
3. Type of contract:	First Per Risk Excess of Loss Reinsurance – Exhibit C1
Lines reinsured:	All property business written by the company
Company's retention:	\$50,000
Coverage:	100% of each and every loss, including loss adjustment expense, in excess of the retention up to the limit of \$75,000
Reinsurance premium:	8.84% of net premium written
Annual deposit premium:	\$60,893
4. Type of contract:	Second Per Risk Excess of Loss Reinsurance – Exhibit C2
Lines reinsured:	All property business written by the company
Company's retention:	\$125,000
Coverage:	100% of each and every loss, including loss adjustment expense, in excess of the retention up to the limit of \$75,000
Reinsurance premium:	3.50% of net premium written
Annual deposit premium:	\$24,109
5. Type of contract:	First Aggregate Excess of Loss Reinsurance – Exhibit D1
Lines reinsured:	All business written by the company
Company's retention:	70% of net premiums written; est. attachment point \$508,893
Coverage:	100% of the amount by which the aggregate of the company's losses, including loss adjustment expenses, exceed the retention with a limit of 65% of net premium written (losses from 70% to 135% of net premium written)
Reinsurance premium:	6.45% of net premium written
Annual deposit premium:	\$46,891

6. Type of contract:	Second Aggregate Excess of Loss Reinsurance – Exhibit D2
Lines reinsured:	All business written by the company
Company's retention:	135% of net premiums written
Coverage:	100% of all loss
Reinsurance premium:	2.0%
Annual deposit premium:	\$14,540

III. FINANCIAL DATA

The following financial statements reflect the financial condition of the company as reported to the Commissioner of Insurance in the December 31, 2014, annual statement.

Adjustments made as a result of the examination are noted at the end of this section in the area captioned "Reconciliation of Policyholders' Surplus."

Price County Town Mutual Insurance Company
Statement of Assets and Liabilities
As of December 31, 2014

Assets	Ledger	Nonledger	Not Admitted	Net Admitted
Cash on hand	\$ 160	\$	\$	\$ 160
Cash in checking	190,882			190,882
Cash deposited at interest	1,000,700			1,000,700
Stocks and mutual fund investments	442,000			442,000
Real estate	15,183			15,183
Premiums, agents' balances and installments:				
In course of collection	29,418		6,291	23,127
Deferred and not yet due	121,783			121,783
Investment income accrued		1,739		1,739
Reinsurance recoverable on paid losses and LAE	9,019			9,019
Other expense-related assets:				
Reinsurance commission receivable	7,786			7,786
Other nonexpense-related assets:				
Federal income tax recoverable	40,540			40,540
Fire dues recoverable	11			11
Furniture and fixtures	<u>3,681</u>	<u> </u>	<u>3,681</u>	<u> </u>
Totals	<u>\$1,861,163</u>	<u>\$1,739</u>	<u>\$9,972</u>	<u>\$1,852,930</u>

Liabilities and Surplus

Net unpaid losses	\$ 71,250
Unpaid loss adjustment expenses	12,000
Commissions payable	14,398
Unearned premiums	408,155
Reinsurance payable	25,426
Amounts withheld for the account of others	1,901
Payroll taxes payable (employer's portion)	626
Other liabilities:	
Expense-related:	
Accounts payable	878
Accrued property taxes	1,304
Nonexpense-related:	
Premiums received in advance	<u>2,651</u>
Total liabilities	538,589
Policyholders' surplus	<u>1,314,341</u>
Total Liabilities and Surplus	<u>\$1,852,930</u>

Price County Town Mutual Insurance Company
Statement of Operations
For the Year 2014

Net premiums and assessments earned		\$556,567
Deduct:		
Net losses incurred	\$332,747	
Net loss adjustment expenses incurred	45,437	
Net other underwriting expenses incurred	<u>238,956</u>	
Total losses and expenses incurred		<u>617,140</u>
Net underwriting gain (loss)		(60,573)
Net investment income:		
Net investment income earned		7,335
Other income (expense):		
Policy fees		<u>38,957</u>
Net income (loss) before federal income taxes		(14,281)
Federal income taxes incurred		<u>(6,641)</u>
Net Income (Loss)		<u>\$ (7,640)</u>

**Price County Town Mutual Insurance Company
Reconciliation and Analysis of Surplus as Regards Policyholders
For the Five-Year Period Ending December 31, 2014**

The following schedule is a reconciliation of surplus as regards policyholders during the period under examination as reported by the company in its filed annual statements:

	2014	2013	2012	2011	2010
Surplus, beginning of year	\$1,199,409	\$1,075,412	\$1,111,091	\$1,202,610	\$1,233,530
Net income	(7,640)	111,941	56,742	(83,716)	(50,246)
Net unrealized capital gain or (loss)	125,337	8,735	(91,085)	(8,143)	22,403
Change in nonadmitted assets	<u>(2,765)</u>	<u>3,321</u>	<u>(1,336)</u>	<u>340</u>	<u>(3,077)</u>
Surplus, End of Year	<u>\$1,314,341</u>	<u>\$1,199,409</u>	<u>\$1,075,412</u>	<u>\$1,111,091</u>	<u>\$1,202,610</u>

Reconciliation of Policyholders' Surplus

A reconciliation of the policyholders' surplus as reported by the company in its filed annual statement and as determined by the examination is detailed in the following schedule:

Policyholders' surplus per December 31, 2014, annual statement		\$1,314,341
Item	Increase	Decrease
Net unpaid losses	<u>\$0</u>	<u>\$(48,944)</u>
Total	<u>\$0</u>	<u>\$(48,944)</u>
Decrease to surplus per examination		<u>(48,944)</u>
Policyholders' Surplus per Examination		<u>\$1,265,397</u>

IV. SUMMARY OF EXAMINATION RESULTS

Compliance with Prior Examination Report Recommendations

Comments and recommendations contained in the last examination report and the action taken on them by the company are as follows:

1. Underwriting—It is recommended that the company establish formal written inspection standards for new and renewal business, which will document the items to be inspected and the conditions the company determines to be acceptable or not acceptable for continued coverage.

Action—Partial compliance; see a discussion in the section of this report captioned “Current Examination Results.”

2. Business Continuity Plan—It is recommended that the company update the business continuity plan and file such plan with this office within 180 days of the adoption of this report.

Action—Compliance

3. Net Unpaid Losses—It is recommended that the company adopt procedures for timely settlement of claims in compliance with s. Ins 6.11 (3) (a) 2, Wis. Adm. Code.

Action—Compliance

Current Examination Results

Corporate Records

The minutes of the annual meetings of policyholders and meetings of the board of directors and committees thereof were reviewed for the period under examination and also for the subsequent period.

Biographical data relating to company officers and directors have been reported in accordance with the provisions of s. Ins 6.52, Wis. Adm. Code.

The company has executed formal written agreements with its agents. The contracts include language indicating the agent will represent the company's interests "in good faith."

The company is required to file all agents that write business for the company with this office, pursuant to s. 628.11, Wis. Stat. The examination included a comparison of a list of active agents maintained by the company and the list of agents filed by the company with the Office of the Commissioner of Insurance (OCI). The review noted that two agents were being listed as active agents per the OCI filing but were no longer active agents with the company. It is recommended that the company promptly notify the Office of the Commissioner of Insurance of any changes in an agent's status with the company.

Conflict of Interest

In accordance with a directive of the Commissioner of Insurance, each company is required to establish a procedure for the disclosure to its board of directors of any material interest or affiliation on the part of its officers, directors, or key employees which conflicts or is likely to conflict with the official duties of such person. A part of this procedure is the annual completion of a conflict of interest questionnaire by the appropriate persons. The company has adopted such a procedure for disclosing potential conflicts of interest. The examination included a review of the company's conflict of interest statements for members of the board of directors. The review noted that multiple conflict of interest statements were only partially completed by the board members. This may lead to the company not realizing that a conflict of interest exists with the noted board member. It is recommended that the company review the conflict statements for completeness.

Fidelity Bond and Other Insurance

The company is afforded coverage under the terms of the following bonds or contracts and has complied with s. Ins 13.05 (6), Wis. Adm. Code, which sets forth the minimum requirements for fidelity bond coverage:

Type of Coverage	Coverage Limits
Fidelity bond	\$ 250,000
Worker's compensation:	
Employee injury	Statutory
Employee liability:	
Each accident	100,000
Each employee	100,000
Policy limit	500,000
Commercial property (structure)	65,000
Commercial property (personal)	20,000
Personal liability:	
Per occurrence	1,000,000
Per person (medical payments)	1,000
Per accident (medical payments)	25,000
Agents errors and omissions:	
Per claim	1,000,000
Aggregate	1,000,000
Professional liability:	
Per claim	1,000,000
Aggregate	1,000,000
Directors and officers liability:	
Per claim	1,000,000
Aggregate	1,000,000

Underwriting

The company has a written underwriting guide. The guide covers all the lines of business that the company is presently writing.

The company does have a formal inspection procedure for new business but has not implemented an inspection procedure for renewal business as recommended by the previous examination. Inspections are performed by an independent board member or by an outside inspection service for all new properties and if an insured requests a change on their policy. It is again recommended that the company establish a formal inspection standard for renewal business, which will document the items to be inspected and the conditions the company determines to be acceptable or not acceptable for continued coverage.

The examination included a review of a sample of policy files for evidence of a signed statement of undertaking. The signed statement of undertaking was present in most of the

company's policies examined but was not present in one item in the sample tested from the policy population. It is recommended the company obtain a signed statement of undertaking to pay premiums and assessments on all new business and from all policies in force where a previous undertaking cannot be located in accordance with s. Ins 13.04 (3), Wis. Adm. Code. The signed statement of undertaking should be completed for all policyholders as part of the original application process. A signed statement does not need to be completed on a renewal basis.

Claims Adjusting

The company does have an adjusting committee consisting of at least three directors as required by s. 612.13 (4), Wis. Stat. The function of this committee is to adjust or supervise the adjustment of losses. The review of the company's board minutes did not indicate that the adjusting committee is acting in a supervisory role over the claims adjusting process. The company's bylaws require the committee to "promptly ascertain the amount of the loss and shall authorize the Secretary to offer such ascertained amount to the member sustaining the loss." It is recommended the company document in the board meeting minutes the activity and actions taken by the adjusting committee so as to be in compliance with the company's bylaws.

Accounts and Records

The examiners' review of the company's records indicated that the company is in compliance with s. Ins 13.05, Wis. Adm. Code, which sets forth the minimum standards for the handling of cash and recording of cash transactions by town mutual insurance companies. The examiners noted the following:

1. A proper policy register is maintained.
2. A proper cash receipts journal is maintained.
3. A proper cash disbursements journal is maintained.
4. A proper general journal is maintained.
5. A proper general ledger is maintained.

An extensive review was made of income and disbursement items. Cash receipts were traced from source records and the proper recording and eventual deposit thereof ascertained. Negotiated checks issued during the period under examination were reviewed, test checked for proper endorsement, and traced to cash records. The verification of assets and determination of liabilities were made as of December 31, 2014.

The company is audited annually by an outside public accounting firm.

The examination included a review of the adequacy of reserves established as of December 31, 2014. The examiners were unable to obtain year-end 2014 claim reserve information from the company due to limitations of the company's software system. In addition, the company did not retain copies of documents regarding the December 31, 2014, loss reserves that were supplied to the company's external auditors. It is recommended that the company retain original accounting records (or have the ability to reproduce records) to document and support the transactions and account balances for a period of three years in accordance with s. Ins 6.80 (4) (b), Wis. Adm. Code, and for all years since the last OCI examination.

Agent and Agency Agreements

The examination included a review of the company's agent/agency agreements. Two of the contracts reviewed do not contain language to protect the company in the event of a sale, death, retirement, or loss of agent license. The contracts in question appear to be older contracts executed in 1988 and 1990. The most recent contracts utilized by the company contain proper language to protect the company as necessary. It is recommended that the company execute formal written agreements with all agents/agencies that represent the company indicating that in the event of the sale, death, retirement, or loss of agent license, the company shall have the option to purchase the renewal business or approve of the potential successor.

Two of the contracts reviewed do not require the agent/agency to maintain insurance in the event of errors or omissions by the agent/agency for insurance in force. The contracts in question appear to be older contracts executed in 1988 and 1990. The most recent contracts utilized by the company contain proper language to protect the company as necessary. The company currently requires the agent/agency to maintain errors and omissions insurance at a minimum amount of \$300,000. It is recommended that the company execute formal written agreements with all agents/agencies who represent the company that require they keep errors and omissions insurance in force.

During the examination it was noted that the company's general manager is actively writing business for the company. Per the 2014 annual statement, the manager accounted for

36% of the company's direct business. It was noted that there is no agent agreement between the manager and the company. An agent agreement would protect the company in the event the employee terminates her employment with the company. It is recommended that the company have an agent agreement in place for all employees that actively write business for the company.

Unclaimed Property

The company does not appear to be filing the required unclaimed property reports with the state of Wisconsin. Based upon a review of the company's bank statements and checks outstanding, there were at least six check items outstanding for over five years, totaling \$904.15, that should have been escheated to the state. It is recommended that the company file unclaimed property reports as required by ch. 177, Wis. Stat., and maintain copies of these filings.

Reinsurance

The examination included a review of the company's 10 largest risks. It was noted that a significant difference existed between the reinsurance coverage and policy coverage of the company's two largest policy risks. It was determined that the company had incorrectly reinsured these policies and ceded only a portion of the policies' coverage that could have been covered by reinsurance. This resulted in the company accepting more risk than it would have retained had the policies been properly ceded. It is recommended the company review its reinsurance practices to ensure proper reinsurance is utilized to limit the company's risk retention on policies.

EDP Environment

Company personnel were interviewed with respect to the company's electronic data processing environment. Access to the computers is limited to people authorized to use the computers by both hardware locks and passwords.

Company personnel back up the computers daily and daily backup files are taken off-site to the Managers home. The company rotates three backup disks for this purpose.

The company does not have manuals documenting the use of its computer software or outlining the steps to complete specific tasks but depends on the software vendor to provide support when needed. The company also uses an outside vendor to maintain its computer

network and hardware in its offices. The examination determined that the level of EDP support available and backup procedures in place are adequate given the size of the company.

Business Continuity Plan

A business continuity plan identifies steps to be performed by a company in the event of business interruptions including, but not limited to, the inability to access its computer, the loss of information on its computer, the loss of a key employee, or the destruction of its office building. The company had developed a business continuity plan. The company's plan appears to be adequate.

Invested Assets

Section 610.23, Wis. Stat., requires insurers to hold all investments and deposits of its funds in its own name except that:

- (1) Securities kept under a custodial agreement or trust arrangement with a bank or banking and trust company may be issued in the name of a nominee of the bank or banking and trust company; and
- (2) Any insurer may acquire and hold securities in bearer form.

For securities not held under a custodial agreement or trust arrangement with a bank or banking and trust company, s. Ins 13.05 (4), Wis. Adm. Code, requires that:

Non-negotiable evidences of company investments such as registered bonds, certificates of deposits, notes, etc., shall be maintained in a safe or vault with adequate safety controls or in a safety deposit box in a bank. Negotiable evidences of company investments shall be maintained in a safety deposit box in a bank. Access to a company safety deposit box containing negotiable securities shall require the presence and signature of at least 2 officers, directors or employees of the company.

The company is in compliance with these requirements.

Investment Rule Compliance

The investment rule for town mutual insurers allows a company to invest in common stocks, common stock mutual funds, and other higher risk investments (referred to as "Type 2") provided that the town mutual has a sufficient amount of lower risk investments (referred to as "Type 1"). A town mutual may invest in Type 2 securities only if it already has sufficient Type 1 investments. Type 1 investments must equal or exceed the greater of items 1, 2, or 3.

1. Liabilities plus \$300,000	\$ 838,589
2. Liabilities plus 33% of gross premiums written	832,261
3. Liabilities plus 50% of net premiums written	816,154
4. Amount required (greater of 1, 2, or 3)	838,589
5. Amount of Type 1 investments as of 12/31/2014	<u>1,191,582</u>
6. Excess or (deficiency)	<u>\$ 352,993</u>

The company has sufficient Type 1 investments.

ASSETS

Cash and Invested Cash **\$1,191,742**

The above asset is comprised of the following types of cash items:

Cash in company's office	\$ 160
Cash deposited in banks—checking accounts	190,882
Cash deposited in banks at interest	<u>1,000,700</u>
Total	<u>\$1,191,742</u>

Cash in company's office at year-end represents the company's petty cash fund.

Cash deposited in banks subject to the company's check and withdrawal consists of only one account maintained in a local bank. Verification of checking account balances was made by the independent auditors by obtaining confirmations directly from the depository and reconciling the amounts shown thereon to company records.

Cash deposited in banks represents the aggregate of 16 deposits in 8 depositories. Deposits were verified to the direct confirmation letters and correspondence provided by the independent auditors. Interest received during the year 2014 totaled \$13,850. Rates of interest earned on cash deposits ranged from 0.15% to 3.10%. Accrued interest on cash deposits totaled \$1,739 at year-end.

Stocks and Mutual Fund Investments **\$442,000**

The above asset consists of the aggregate market value of stocks and mutual funds held by the company as of December 31, 2014.

Stock certificates are kept in a safe in the company's offices and were physically examined by the examiners. There were no purchases or sales of stocks for the period under examination. The company's investment in stocks was in conformance with Wisconsin Statutes and the rules of the Commissioner of Insurance as regards investments made by town mutual insurers.

Dividends received during 2014 on stocks amounted to \$4,753.

Book Value of Real Estate **\$15,183**

The above amount represents the company's investment in real estate, net of depreciation, as of December 31, 2014. The company's real estate holdings consisted of land and building used as its home office located in downtown Phillips, Wisconsin.

The required documents supporting the validity of this asset were reviewed and were in order. Adequate hazard insurance was carried on the real estate and contents as noted under the caption "Fidelity Bond and Other Insurance." The company's investment in real estate and related items was in conformance with the Wisconsin Statutes and the rules of the Commissioner of Insurance as regards investments made by town mutual insurers. Real estate depreciation is calculated using the straight-line method.

Premiums, Agents' Balances in Course of Collection **\$23,127**

This asset represents the amounts due from agents or policyholders which are not in excess of 90 days past due at year-end. A review of detailed premium records verified the accuracy of this asset.

Premiums Deferred and Not Yet Due **\$121,783**

This asset represents modal premium installments (such as monthly, quarterly, etc.) that are not yet due. A review of a sample from the company's detailed list of deferred premiums verified the accuracy of this asset.

Investment Income Accrued **\$1,739**

Interest due and accrued on the various assets of the company at December 31, 2014, consists of the interest due and accrued on certificates of deposit. A review of subsequent receipts verified the above balance.

Reinsurance Recoverable on Paid Losses and LAE **\$9,019**

The above asset represents recoveries due to the company from reinsurance on losses and loss adjusting expenses which were paid on or prior to December 31, 2014. A review of year-end accountings with the reinsurer verified the above asset.

Fire Dues Recoverable **\$11**

This asset represents the amount overpaid to the state of Wisconsin for 2014 fire dues. The external auditors reviewed the company's fire department dues calculation and found this asset to be correctly calculated.

Reinsurance Commission Receivable **\$7,786**

The above asset represents the amount of reinsurance commissions that the company expected to receive as of December 31, 2014, under its contract with Wisconsin Reinsurance Corporation. A review of the terms of the reinsurance agreement and year-end accountings with the reinsurer verified the above asset.

Furniture and Fixtures **\$0**

This asset consists of \$3,681 of office furniture and fixtures and office equipment (other than computer equipment and software) owned by the company at December 31, 2014. In accordance with annual statement requirements, this amount has been reported as nonadmitted asset, thus the balance shown above is \$0.

LIABILITIES AND SURPLUS

Net Unpaid Losses **\$71,250**

This liability represents losses incurred on or prior to December 31, 2014, that remained unpaid as of that date. The examiners reviewed the reasonableness of this liability by totaling actual loss payments made subsequent to December 31, 2014, with incurred dates in 2014 and prior years. The examiners' development of unpaid losses is compared with the amount estimated by the company in the following schedule.

	Company Estimate	Examiners' Development	Difference
Incurred but unpaid losses	\$228,593	\$284,268	\$(55,675)
Less: Reinsurance recoverable on unpaid losses	<u>157,343</u>	<u>164,074</u>	<u>(6,731)</u>
Net Unpaid Losses	<u>\$ 71,250</u>	<u>\$120,194</u>	<u>\$(48,944)</u>

The reserve deficiency of \$(48,944) was considered material for purposes of this examination and is reflected in Section III of this report under the heading "Reconciliation of Policyholders' Surplus." Review of year-to-date claims paid indicated payments for a number of losses which occurred in 2014 and were not reported by the insureds until 2015, which accounted for the deficiencies in reserves noted above. A majority of these claims related to a hail storm that hit the company's territory in September of 2014. The company did not anticipate that a large number of claims related to this storm would be reported in 2015 and did not include the estimate of these claims in its year-end 2014 loss reserve.

The examiners' review of claim files included open claims, paid claims, claims closed without payment, and claims that were denied during the examination period. The review indicated that claims are investigated and evaluated properly and that payments are made promptly and in accordance with policy provisions upon the submission of a proper proof of loss. In addition, the review of claims handling procedures and files revealed the following:

1. A proper loss register is maintained.
2. Claim files contain sufficient investigatory data and documentation to verify settlement payments or reserve estimates.
3. Proofs of loss were properly signed.

Unpaid Loss Adjustment Expenses **\$12,000**

This liability represents the company's estimate of amounts necessary to settle losses which were incurred prior to December 31, 2014, but which remained unpaid as of year-end. An inventory of amounts owed for settlements in the process of adjustment was made by the company in establishing this liability.

The examiners' analysis of expenses incurred in the current year related to the settlement of prior-year losses, as well as estimates of amounts necessary to settle any prior losses remaining unpaid at the examination date, determined this liability to be adequately stated.

Commissions Payable **\$14,398**

This liability represents the commissions payable to agents as of December 31, 2014. The examiners reviewed the company's commission calculation and found the liability to be reasonably stated.

Unearned Premiums **\$408,155**

This liability represents the reserve established for unearned premiums in compliance with s. Ins 13.08 (3), Wis. Adm. Code. This reserve was established using a daily pro rata methodology. A recalculation of the company's detailed list of unearned premiums verified the accuracy of this liability.

Reinsurance Payable **\$25,426**

This liability consists of amounts due to the company's reinsurer at December 31, 2014, relating to transactions which occurred on or prior to that date.

Amounts Withheld for the Account of Others **\$1,901**

This liability represents employee payroll deductions in the possession of the company at December 31, 2014. Supporting records and subsequent cash disbursements verified this item.

Payroll Taxes Payable **\$626**

This liability represents the company's portion of payroll taxes incurred prior to December 31, 2014, which had not yet been paid. Supporting records and subsequent cash disbursements verified this item.

Accounts Payable **\$1,199**

This liability represents the company's unpaid 2014 incurred general expense items. The examiners' review of subsequent payments verified the adequacy of this item.

Accrued Property Taxes **\$1,304**

This liability represents the company's unpaid 2014 property taxes. The examiners' review of subsequent payments verified the accuracy of this item.

Premiums Received in Advance **\$2,651**

This liability represents the total premiums received prior to year-end for policies with effective dates after December 31, 2014. The examiners reviewed 2014 premium and cash receipt records to verify the accuracy of this liability.

V. CONCLUSION

The company reported assets of \$1,852,930, liabilities of \$538,589 and surplus of \$1,314,341 as of December 31, 2014. Those amounts represented increases of 8%, 12% and 7%, respectively, since the last examination as of year-end 2009. The company reported an underwriting gain and a net income in two of the five years. In 2014, an underwriting loss of \$60,573 led to a net loss of \$7,640.

The company has been conservative in writing new business while trying not to increase its rates in order to maintain its current business. This resulted to a consistent decrease in policies in force from 1,739 in 2010 to 1,715 in 2014, down 1.4% in five years.

This examination resulted in 11 recommendations as summarized in the following section. There were no reclassifications of balance sheet items as a result of this examination, but there was an adjustment of \$(48,944) to net unpaid losses, which resulted in a corresponding decrease to policyholders' surplus.

VI. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 14 - Corporate Records—It is recommended that the company promptly notify the Office of the Commissioner of Insurance of any changes in an agent’s status with the company.
2. Page 14 - Conflict of Interest—It is recommended that the company review the conflict statements for completeness.
3. Page 15 - Underwriting—It is again recommended that the company establish a formal inspection standard for renewal business, which will document the items to be inspected and the conditions the company determines to be acceptable or not acceptable for continued coverage.
4. Page 16 - Underwriting—It is recommended the company obtain a signed statement of undertaking to pay premiums and assessments on all new business and from all policies in force where a previous undertaking cannot be located in accordance with s. Ins 13.04 (3), Wis. Adm. Code. The signed statement of undertaking should be completed for all policyholders as part of the original application process. A signed statement does not need to be completed on a renewal basis.
5. Page 16 - Claims Adjusting—It is recommended the company document in the board meeting minutes the activity and actions taken by the adjusting committee so as to be in compliance with the company’s bylaws.
6. Page 17 - Accounts and Records—It is recommended that the company retain original accounting records (or have the ability to reproduce records) to document and support the transactions and account balances for a period of three years in accordance with s. Ins 6.80 (4) (b), Wis. Adm. Code, and for all years since the last OCI examination.
7. Page 17 - Agent and Agency Agreements—It is recommended that the company execute formal written agreements with all agents/agencies that represent the company indicating that in the event of the sale, death, retirement, or loss of agent license, the company shall have the option to purchase the renewal business or approve of the potential successor.
8. Page 17 - Agent and Agency Agreements—It is recommended that the company execute formal written agreements with all agents/agencies who represent the company that require they keep errors and omissions insurance in force.
9. Page 18 - Agent and Agency Agreements—It is recommended that the company have an agent agreement in place for all employees that actively write business for the company.
10. Page 18 - Unclaimed Property—It is recommended that the company file unclaimed property reports as required by ch. 177, Wis. Stat., and maintain copies of these filings.
11. Page 18 - Reinsurance—It is recommended the company review its reinsurance practices to ensure proper reinsurance is utilized to limit the company's risk retention on policies.

VII. ACKNOWLEDGMENT

The courteous cooperation extended to the examiners by the company's personnel is hereby acknowledged.

In addition to the undersigned, Brian Jeremiason of the Office of the Commissioner of Insurance, State of Wisconsin, participated in the examination.

Respectfully submitted,

Richard Janosik
Examiner-in-Charge