

Report of the Examination of  
Berry and Roxbury Mutual Insurance Company  
Cross Plains, Wisconsin  
As of December 31, 2019

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November 20, 2020

Honorable Mark V. Afable  
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, 2019, of the affairs and financial condition of:

**BERRY AND ROXBURY MUTUAL INSURANCE COMPANY**  
Cross Plains, Wisconsin

and the following report thereon is respectfully submitted:

## **I. INTRODUCTION**

The previous examination of Berry and Roxbury Mutual Insurance Company (the company) was made in 2012 as of December 31, 2011. The current examination covered the five-year period beginning January 1, 2015, and ending December 31, 2019, 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 was organized as a town mutual insurance company on March 10, 1876, under the provisions of the then-existing Wisconsin Statutes. The original name of the company was The Berry Mutual Farmers' Fire Insurance Company. Subsequent amendments to the company's articles and bylaws changed the company's name to that presently used.

During the period under examination, there was one amendment to the articles of incorporation and no amendments to the bylaws. The amendment to the articles of incorporation was to include two additional counties – Green and Rock – to the company's authorized territory

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:

Columbia	Dane
Green	Iowa
Rock	Sauk

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 three years with premiums payable on the advance premium basis in annual, semiannual, or quarterly installments. The company also charges an installment fee equal to \$5 each payment for policies not paid on an annual basis.

Business of the company is acquired through six agents, two of whom are directors of the company. Agents are presently compensated for their services as follows:

<b>Type of Policy</b>	<b>Compensation</b>
All types of policies	15.0%

Agents have no authority to adjust losses. Most losses are adjusted by directors. Adjusters (directors) receive \$50 for each loss adjusted.

Policyholders may participate in the management and control of the company by attending and voting at the 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. At the time of the examination, one board position is vacant. The company is actively trying to fill this position; however, the process has been slow due to the ongoing COVID-19 pandemic.

The current board of directors consists of the policyholders listed below. Directors who are also agents are identified with an asterisk.

<b>Name and Residence</b>	<b>Principal Occupation</b>	<b>Term Expires</b>
Marvin Frey Sauk City, Wisconsin	Retired Farmer	2023
Paul Endres* Sauk City, Wisconsin	Retail Manager	2023
Gary Wipperfurth Sauk City, Wisconsin	Farmer	2022
L. Peter Wolf* Cross Plains, Wisconsin	Civil Engineer	2022
Roger Kahl Cross Plains, Wisconsin	Farmer	2022
Carl Ketelboeter Mazomanie, Wisconsin	Small Business Owner	2021
Robert Clason Black Earth, Wisconsin	Farmer	2021
Richard Wipperfurth Lodi, Wisconsin	Engineer / Farmer	2021

Members of the board currently receive \$50 for each meeting attended and an additional \$25 for whole day meetings.

Section 612.13 (1m), Wis. Stat., requires:

- (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.

Due to the vacant board position, the company is not in compliance with these requirements.

There are only eight current board members and more than one of them represent the company.

However, the company is actively seeking a ninth board member.

### **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:

<b>Name</b>	<b>Office</b>
Gary Wipperfurth	President
Robert Clason	Vice President
L. Peter Wolf	Secretary/Treasurer

**Committees of the Board**

The full board of directors functions as a committee of the whole for the adjusting committee required by s. 612.13 (4), Wis. Stat., and for review of investments.

## Growth of Company

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

Year	Net Premiums Earned	Policies In Force	Net Income	Admitted Assets	Policyholders' Surplus
2019	\$169,568	403	(\$16,392)	\$1,950,745	\$1,762,757
2018	168,407	444	(32,756)	1,962,362	1,776,510
2017	155,562	453	(40,946)	2,015,915	1,815,089
2016	153,071	459	(168,546)	2,058,966	1,817,181
2015	163,687	454	(22,254)	2,147,072	1,959,569

The ratios of gross and net premiums written to surplus as regards policyholders during the period under examination were as follows:

Year	Gross Premiums Written	Net Premiums Written	Policyholders' Surplus	Writings Net	Ratios Gross
2019	\$370,171	\$159,075	\$1,762,757	9%	21%
2018	394,023	166,514	1,776,510	9	22
2017	391,059	151,888	1,815,089	8	22
2016	394,404	154,284	1,817,181	8	22
2015	396,843	174,093	1,959,569	9	20

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
2019	\$102,341	\$119,511	\$169,568	60%	75%	135%
2018	114,296	117,965	168,407	68	71	139
2017	115,482	116,212	155,562	74	77	151
2016	230,293	124,636	153,071	150	81	231
2015	85,261	126,692	163,687	52	73	125

Over the last five years, the company reported a decrease in surplus and admitted assets of 10% and 9%, respectively. The decrease reflects the net operating losses year over year caused by underwriting losses that were partially offset by investment gains.

The number of policies-in-force decreased by 11% from 2015 to 2019. However, net premium earned has remained stable due to premium rate adjustments.

The highest net loss was reported in 2016 (with a loss ratio of 150%). The high loss in 2016 was caused by a hailstorm in September, which resulted in more than 20 hail claims.

## 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, 2020
Termination provisions:	Either party may terminate on any January 1 by giving at least 60 days' notice to the other party.

The coverages provided under this treaty are summarized as follows:

- |                      |  |
|----------------------|--|
| Type of contract:    | Class AQ1 (Liability)  |
| Lines reinsured:     | All business classified as Casualty or Liability Business  |
| Coverage:            | 100% of each and every loss including loss adjusting expense, subject to the following limits:<br><br>\$1,000,000 per occurrence, single limit or combined for bodily injury and property damage liability.<br><br>\$1,000,000 split limits, in any combination of bodily injury and property damage liability.<br><br>\$25,000 for medical payments, per person.<br><br>\$25,000 for medical payments, per accident for Personal Lines. |
| Reinsurance premium: | 100% of the net premiums written in respect to the business covered  |
| Ceding commission:   | 15% of net premiums written  |
- |                      |  |
|----------------------|--|
| Type of contract:    | Class B (First Surplus)  |
| Lines reinsured:     | All property business  |
| Company's retention: | \$700,000  |
| Coverage:            | 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.<br><br>Notwithstanding the above, any single location which is in excess of \$2,700,000 of property coverage, or otherwise beyond the |



terms, conditions, and limitations of this contract, may be submitted to the reinsurer for special acceptance.

- Reinsurance premium: The company shall pay to the reinsurer the pro rata portion of all premiums, fees and assessments charged by the company corresponding to the amount of each risk ceded.
- Ceding commission: 15% of all premium  
15% of the profit of reinsurer
3. Type of contract: Class C1 (First per Risk Excess of Loss)
- Lines reinsured: All property business
- Company's retention: \$75,000
- Coverage: 100% of each and every loss, including loss adjustment expense, in excess of the retention.
- Limit: 100% of \$125,000
- Reinsurance premium: 7.95% of net premium  
Annual deposit premium \$22,708
4. Type of contract: Class C2 (Second per Risk Excess of Loss)
- Lines reinsured: All property business
- Company's retention: \$200,000
- Coverage: 100% of each and every loss, including loss adjustment expense, in excess of the retention
- Limit: 100% of \$200,000
- Reinsurance premium: 7% of net premium  
Annual deposit premium \$19,994
5. Type of contract: Class C3 (Third per Risk Excess of Loss)
- Lines reinsured: All property business
- Company's retention: \$400,000
- Coverage: 100% of each and every loss, including loss adjustment expense, in excess of the retention.
- Limit: 100% of \$300,000
- Reinsurance premium: 2%  
Annual deposit premium \$5,713
6. Type of contract: Class D1 (First Aggregate Excess of Loss)
- Lines reinsured: All business written by the company

Company's retention:	The company shall retain net for its own account an amount of net losses, including loss adjustment expenses, equal to not less than the Attachment Point.  Attachment point 80%, estimated amount \$228,508
Coverage:	100% of the amount, if any, by which the aggregate of the company's net losses, including loss adjustment expenses, which occur during an annual period this Exhibit is in effect, exceed the attachment point.
Limit:	100% of 70% net premium
Reinsurance premium:	Rate: 9.25% of net premium Annual deposit premium of \$26,421
7. Type of contract:	Class D2 (Second Aggregate Excess of Loss)
Lines reinsured:	All business written by the company
Company's retention:	The company shall retain net for its own account an amount of net losses, including loss adjustment expenses, equal to not less than the Attachment Point.  Attachment point: 150%
Coverage:	100% of the amount, if any, by which the aggregate of the company's net losses, including loss adjustment expenses, which occur during an annual period this exhibit is in effect, exceed the attachment point.
Reinsurance premium:	Rate: 2% of net premium Annual deposit premium of \$5,713

### **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, 2019, 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."

**Berry and Roxbury Mutual Insurance Company**  
**Statement of Assets and Liabilities**  
**As of December 31, 2019**

<b>Assets</b>	<b>Ledger</b>	<b>Nonledger</b>	<b>Not Admitted</b>	<b>Net Admitted</b>
Cash in company's office	\$32			\$32
Cash deposited in checking	14,229			14,229
Cash deposited at interest	1,002,243			1,002,243
Bonds	500,481			500,481
Stocks and mutual fund investments	358,207			358,207
Premiums, agents' balances and installments:				
In course of collection	31,126		\$6,876	24,250
Deferred and not yet due	31,797			31,797
Investment income accrued		\$18,702		18,702
Reinsurance recoverable on paid losses and LAE	100			100
Electronic data processing equipment	512			512
Fire dues recoverable	192			192
Furniture and fixtures	<u>840</u>	<u>          </u>	<u>840</u>	<u>          </u>
Totals	<u>\$1,939,759</u>	<u>\$18,702</u>	<u>\$7,716</u>	<u>\$1,950,745</u>

**Berry and Roxbury Mutual Insurance Company**  
**Statement of Assets and Liabilities (cont.)**  
**As of December 31, 2019**

**Liabilities and Surplus**

Net unpaid losses	\$29,215
Loss adjustment expenses unpaid	250
Commissions payable	9,437
Unearned premiums	134,546
Reinsurance payable	12,975
Amounts withheld for the account of others	1,198
Payroll taxes payable (employer's portion)	<u>367</u>
Total Liabilities	187,988
Policyholders' Surplus	<u>1,762,757</u>
Total Liabilities and Surplus	<u>\$1,950,745</u>

**Berry and Roxbury Mutual Insurance Company**  
**Statement of Operations**  
**For the Year 2019**

Net premiums and assessments earned		\$169,568
Deduct:		
Net losses incurred	\$93,219	
Net loss adjustment expenses incurred	9,122	
Net other underwriting expenses incurred	<u>119,511</u>	
Total losses and expenses incurred		<u>221,852</u>
Net underwriting gain (loss)		(52,284)
Net investment income:		
Net investment income earned	<u>39,368</u>	
Total investment gain (loss)		39,368
Other income (expense):		
Policy and installment fees	2,805	
Miscellaneous Income (Expense)	<u>(6,281)</u>	
Total other income (expense)		<u>(3,476)</u>
Net income (loss) before federal income taxes		(16,392)
Federal income taxes incurred		<u>0</u>
Net Income (Loss)		<u>(\$16,392)</u>

**Berry and Roxbury Mutual Insurance Company**  
**Reconciliation and Analysis of Surplus as Regards Policyholders**  
**For the Five-Year Period Ending December 31, 2019**

The following schedule is a reconciliation of surplus as regards policyholders during the last five years as reported by the company in its filed annual statements:

	<b>2019</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>
Surplus, beginning of year	\$1,776,510	\$1,815,089	\$1,817,181	\$1,959,569	\$1,980,735
Net income (loss)	(16,392)	(32,756)	(40,946)	(168,546)	(22,254)
Net unrealized capital gain or (loss)	4,511	(1,003)	31,145	32,656	1,858
Change in nonadmitted assets	<u>(1,872)</u>	<u>(4,820)</u>	<u>7,709</u>	<u>(6,498)</u>	<u>(770)</u>
Surplus, End of Year	<u>\$1,762,757</u>	<u>\$1,776,510</u>	<u>\$1,815,089</u>	<u>\$1,817,181</u>	<u>\$1,959,569</u>

**Reconciliation of Policyholders' Surplus**

The examination resulted in no adjustments to policyholders' surplus. The amount reported by the company as of December 31, 2019, is accepted.



## 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. Invested Assets—It is recommended that the company maintain certificates of deposit and certificates for shares of common stock in a safe or vault with adequate safety controls. During the brief periods of time, from time to time, when this is not practicable, the company should maintain such certificates in a locked, fireproof box or cabinet.

Action—Noncompliance, see comments in the “Summary of Current Examination Results.”

2. Invested Assets—It is recommended that the company obtain a custodial agreement with an authorized custodian under s. 610.23, Wis. Stat., and if a sub-custodian is used, the custodian’s indemnification for negligence or dishonesty under the custodial agreement should be extended to apply to any sub-custodians. It is further recommended that the company obtain custodial statements from their custodian that include a detailed list of securities under custody at least quarterly and such statements should be reconciled to any applicable statements from the investment brokerage firm.

Action—Compliance.

3. Net Unpaid Losses—It is recommended that the company follow procedures determined by management requiring a signed proof of loss statement for all claims settled in excess of \$2,000.

Action—Compliance.

4. Net Unpaid Losses—It is again 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."

### **Conflict of Interest**

In accordance with a directive of the Commissioner of Insurance, each company is required to establish a procedure for disclosing to its board of directors 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. Conflict of interest questionnaires were reviewed for the period under examination with no apparent conflicts being noted. However, the examination was unable to review the 2018 annual conflict of interest disclosure statements; these disclosure statements were lost in a flood the company experienced in 2018.

### **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:

<b>Type of Coverage</b>	<b>Coverage Limits</b>
Fidelity bond	\$100,000
Worker's Compensation:	
Employee injury	Statutory
Employee liability:	
Each accident	100,000
Each employee	100,000
Policy limit	100,000

### **Underwriting**

The company has a written underwriting guide. The guide covers all the lines of business that the company is presently writing. The review of the policy files identified some missing signed undertakings in the application. It is recommended that the company take action to ensure that all policy files contain a signed undertaking from the policyholder.

The company has a formal inspection procedure for both new and renewal business. All new business is inspected, and renewal business is re-inspected every nine years. A sampling of new applications and renewal business is partially inspected by third party inspectors who are independent of the risk under consideration and review. The examination noted some policy files did not include proof of the required initial or renewal inspection. It is recommended that the company comply with its established formal inspection procedure for new and renewal business.

### **Claims Adjusting**

The company has an adjusting committee consisting of at least three directors as required by s. 612.13 (4), Wis. Stat. The entire board of directors functions in this capacity as a committee of the whole. The function of this committee is to adjust or supervise the adjustment of losses.

### **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, 2019.

The company is not audited annually by an outside public accounting firm.

### **Claims Review**

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 contained sufficient investigatory data and documentation to verify settlement payments or reserve estimates.
3. Proofs of loss were properly signed.

### **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 has developed a business continuity plan. The company's business continuity 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.

During the review of investments, the company was unable to demonstrate compliance with s. Ins 13.05 (4), Wis. Adm. Code, in regards to safe keeping of stock certificates held by the company.

It is again recommended that the company comply with s. Ins 13.05, Wis. Adm. Code, as regards to custody and control of its invested assets.

### **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	\$ 487,988
2. Liabilities plus 33% of gross premiums written	310,144
3. Liabilities plus 50% of net premiums written	267,526
4. Amount required (greater of 1, 2, or 3)	487,988
5. Amount of Type 1 investments as of December 31, 2019	<u>1,578,421</u>
6. Excess or (deficiency)	<u>\$1,090,433</u>

The company has sufficient Type 1 investments.

## **V. CONCLUSION**

Berry and Roxbury Mutual Insurance Company is a town mutual insurer with an authorized territory of six counties. The company has been in business for over 143 years providing property and liability insurance to its policyholders.

The company reported assets of \$1,950,745, liabilities of \$187,988 and policyholders' surplus of \$1,762,757 at year-end 2019. Surplus decreased by 10% over the last five years, due to net underwriting losses that were partially offset by investment gains. The company reported underwriting losses in each of the last five years. The largest loss occurred in 2016, due to multiple hailstorm claims.

Policies in force have decreased by 11% since 2015. However, net premiums earned have remained stable for the same period due to rate increases and increases in the value of insured properties.

The current examination resulted in one repeat recommendation and two new recommendations. Areas of improvement recommended by this examination include custody of invested assets, inspection of new and renewal business, and obtaining signed undertaking from the policyholders.

## VI. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 17 Underwriting—It is recommended that the company take action to ensure that all policy files contain a signed undertaking from the policyholder.
2. Page 17 Underwriting—It is recommended that the company comply with its established formal inspection procedure for new and renewal business.
3. Page 19 Invested Assets—It is again recommended that the company comply with s. Ins 13.05, Wis. Adm. Code, as regards to custody and control of its invested assets.

## VII. ACKNOWLEDGMENT

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

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

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Junji N. Nartatez". The signature is written in a cursive style with a long horizontal stroke at the beginning.

Junji Nartatez  
Examiner-in-Charge