Report

of the

Examination of

New Hope Mutual Insurance Company

Iola, Wisconsin

As of December 31, 2012

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State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

Scott Walker, *Governor*
Theodore K. Nickel, *Commissioner*

Wisconsin.gov

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

July 23, 2013

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, 2012, of the affairs and financial condition of:

NEW HOPE MUTUAL INSURANCE COMPANY
Iola, Wisconsin

and the following report thereon is respectfully submitted:

I. INTRODUCTION

The previous examination of New Hope Mutual Insurance Company (the company or New Hope) was made in 2008 as of December 31, 2007. The current examination covered the intervening time period ending December 31, 2012, 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.

In addition to auditing, the public accounting firm performs non-auditing services for the company, including accounting for income taxes and compilation of the annual statement. On November 21, 2011, an exemption was granted by the Commissioner, pursuant to s. Ins 50.08 (5), Wis. Adm. Code, permitting the independent auditor to perform this non-audit work for the company.

The company was organized as a town mutual insurance company on January 28, 1887, under the provisions of the then existing Wisconsin Statutes. The original name of the company was the New Hope Norwegian Mutual 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 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:

Marathon	Waupaca
Portage	Waushara
Shawano	Wood

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 six months to one year with premiums payable on the advance premium basis. The company also charges a policy fee of $30.00 and a six-month installment fee of $15.00 ($30.00 annually), which increased from $25.00 and $10.00, respectively, on July 1, 2012.

Business of the company is acquired through three agents, one of whom is the President and a director of the company. Agents are presently compensated for their services as follows:

	Type of Policy	Compensation
Mark Ligman and Diane Trost*	All policies	16%
Roxanne Johnson	All policies	15

* Mark Ligman and Diane Trost generate approximately 99% of all premiums. Beginning January 1, 2014, all agents will receive 15% commissions on all policies.

Agents do not have authority to adjust losses. Dean Onan, a director, can adjust losses up to $20,000. (As of January 1, 2013, Dean Onan began his own adjusting business and now operates as CWIA, LLC.) Losses in excess of this amount are adjusted by an independent adjusting firm. Inside adjusters receive $30.00 per hour for each loss adjusted plus a travel allowance as annually determined by the company. Independent adjusters receive $69.00 per hour plus mileage, office expense, phone and photo expenses.

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 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
Mark Ligman*	President, New Hope Mutual Ins. Co.	Junction City	2016
Chris Ostrowski	Farmer	Amherst Jct.	2016
Nancy Lantz	Retired Post Master	Scandinavia	2016
Alyce Kolden	Retired Manager, New Hope Mutual Ins. Co.	Iola	2015
Cathy Guth	Owner, Guth Farms Inc.	Bancroft	2015
Margaret Larson	Housewife	Iola	2015
Dean Onan	Adjuster-Inspector	Amherst Jct.	2014
James Isherwood	Farm employee	Plover	2014
Dawn Johnson	Manager, New Hope Mutual Ins. Co.	Iola	2014

Directors who are also agents are identified with an asterisk.

Members of the board currently receive $50.00 for each half-day meeting attended and $100.00 for each full-day meeting attended.

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.

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	2012 Compensation
Mark Ligman	President	$76,310
James Isherwood	Vice President	None
Dawn Johnson	Secretary/Treasurer/Manager	72,011

Reported compensation is the total compensation paid by the insurer for the year and includes salary, commissions, and rental income as applicable. Mark Ligman's compensation is comprised of $1,500 salary, $1,600 health benefits, and $73,210 commissions. Dawn Johnson's compensation is comprised of $46,280 salary, $22,611 health benefits, and $3,120 for office rent (New Hope's office is within her home). James Isherwood receives director's fees only. All three officers receive director’s fees at a rate of $50.00 for each half-day meeting attended and $100.00 for each full-day meeting attended.

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	Finance Committee	Business Plan Committee
Chris Ostrowski, Chair	Cathy Guth, Chair	James Isherwood, Chair
Alyce Kolden	Alyce Kolden	Mark Ligman
Margaret Larson	Margaret Larson	Dean Onan
James Isherwood	James Isherwood	Nancy Lantz
Nancy Lantz	Nancy Lantz	Alyce Kolden
Cathy Guth	Chris Ostrowski	Margaret Larson
Dawn Johnson	Dean Onan	Cathy Guth
	Dawn Johnson	Chris Ostrowski
		Dawn Johnson

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
2012	$246,666	967	$(82,237)	$527,200	$277,982
2011	261,781	955	(96,057)	664,430	412,768
2010	263,896	997	(21,048)	766,828	509,235
2009	279,659	991	(74,937)	753,660	514,798
2008	276,822	995	(96,685)	859,026	628,892
2007	287,878	1,019	51,016	935,026	708,130

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 Ratios Net	Writings Ratios Gross
2012	$573,532	$249,726	$277,982	90%	206%
2011	549,302	258,587	412,768	63	133
2010	546,780	262,062	509,235	51	107
2009	567,595	280,728	514,798	55	110
2008	560,324	277,443	628,892	44	89
2007	530,611	280,484	708,130	40	75

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	Com-posite Ratio
2012	$129,757	$219,230	$246,666	53%	88%	140%
2011	145,424	229,243	261,781	56	89	144
2010	127,780	199,628	263,896	48	76	125
2009	208,972	185,725	279,659	75	66	141
2008	228,087	179,953	276,822	82	65	147
2007	126,652	152,353	287,878	44	54	98

The company has reported net underwriting and net losses in all five of the years of the period under examination. The expense ratio has gradually increased from 54% in 2007 to 89% in 2011 and 88% in 2012. An expense ratio in the upper eighties is unusually high, and it provides little allowance for losses in order for the company to report an underwriting gain. The company’s loss ratio has ranged between 48% reported in 2010 and 82% reported in 2008, with the five-year average of 62.8%. Commissions and personnel costs were identified as the two largest factors that contributed to the high expense ratio. Direct commissions of $95,969 and personnel costs of $67,961 in 2012 were equal to 38.4% and 27.2% of net premiums written, respectively. The cost of reinsurance resulting in decreased net premiums was also a contributing factor to the increase in the expense ratio. While gross premium written has increased 8% during the period under examination, net premium written has decreased 11% reflecting the increased reinsurance cost. Reinsurance premiums paid in 2012 were $323,806, which amounts to 116% of surplus.

Total admitted assets decreased 44% during the examination period. Surplus decreased 61% from $708,130 reported as of December 31, 2007, to $277,982 reported as of December 31, 2012.

II. REINSURANCE

The examiners' review of the company's reinsurance portfolio revealed there is currently one ceding treaty. The treaty contained proper insolvency clauses. The treaty 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. In order to reduce reinsurance cost, the company and its reinsurer negotiated certain revisions to the existing reinsurance contract. The revised contract became effective as of January 1, 2013. The revisions include increasing the company’s retention from $350,000 to $700,000 under the First Surplus contract, increasing the company’s retention from $40,000 to $50,000 under the First Per Risk Excess of Loss contract, and introducing the Third Per Risk Excess of Loss contract with reinsurance coverage of $450,000 over the company’s retention of $250,000. The revised contract also increases reinsurance coverage and reduces the company’s retention under the First Aggregate Excess of Loss contract from 66% over 59% of net premium written to 75% over 50% of net premium written, respectively. The changes result in a decrease in estimated reinsurance premium of approximately $56,000. The description provided below reflects the revised contract.

Reinsurer:	Wisconsin Reinsurance Corporation
Effective date:	January 1, 2013
Termination provision:	January 1, 2014, or any subsequent January 1, by either party providing at least 60 days’ advance notice in writing

The coverages provided under this treaty are summarized as follows:

1.	Type of contract:	Class A Casualty Excess of Loss
	Lines reinsured:	Casualty or liability business
	Company's retention:	$2,500
	Coverage:	100% of each and every loss, including loss adjustment expense, subject to the maximum policy limits of: a. $1,000,000 per occurrence, single limit or combined for bodily injury and property damage liability b. $1,000,000 split limits, in any combination of bodily injury and property damage liability c. $25,000 for medical payments, per person; $25,000 per accident

Reinsurance premium: 65% of net premium written
Annual deposit premium of $60,328

2. Type of contract: Class B First Surplus

   Lines reinsured: All property business

   Company's retention: Up to $700,000 of each risk ceded pro rata

   Coverage: The pro rata portion of each and every loss, including loss adjustment expenses up to $800,000. If the net retention for a risk is $700,000 or less, the company may cede 50% pro rata.

   Premium: Pro rata portion of all premiums corresponding to the amount of each risk ceded
   Annual deposit premium of $62,663

   Ceding commission: Commission rate: 15%
   Profit commission rate: 15%

3. Type of contract: Class C-1 Excess of Loss

   Lines reinsured: All property business

   Company retention: $50,000

   Coverage: 100% of each and every loss in excess of $50,000 up to $75,000, including loss adjustment expense

   Reinsurance premium: Sum of the preceding four years' losses incurred (paid plus outstanding) by the reinsurer, divided by the total of the net premiums written for the same period, multiplied by the factor 125%. The 2013 annual rate was 12%. Annual deposit premium of $50,167.

4. Type of contract: Class C-2 Excess of Loss

   Lines reinsured: All property business

   Company retention: $125,000

   Coverage: 100% of any loss, including loss adjustment expense, in excess of $125,000, up to $125,000

   Reinsurance premium: 3% of net premium written
   Minimum annual premium: 75% of annual deposit premium
   Annual deposit premium of $12,542

5. Type of contract: Class C-3 Excess of Loss

   Lines reinsured: All property business

   Company retention: $250,000

	Coverage:	100% of any loss, including loss adjustment expense, in excess of the company's retention, up to $450,000
	Reinsurance premium:	1.5% of net premium written Minimum annual premium: 75% of annual deposit premium Annual deposit premium of $6,271
6.	Type of contract:	Class D/E Stop Loss
	Lines reinsured:	All business written by the company
	Company retention:	Losses equal to 50% of net premium written
	Coverage:	100% of 75% of annual aggregate losses in excess of the retention
	Premium:	Sum of the preceding eight years' losses incurred by the reinsurer, of the business year just completed, divided by the total of the net premiums written for the same period multiplied by 125%. The 2013 annual rate was 10%. Annual deposit premium of $45,054.
7.	Type of contract:	Class D/E-2 Stop Loss
	Lines reinsured:	All business written by the company
	Company retention:	Losses equal to 125% of net premium written
	Coverage:	100% of annual aggregate losses, including loss adjustment expenses, in excess of the retention
	Premium:	2.0% of net premiums written Annual deposit premium of $9,011

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, 2012, 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."

New Hope Mutual Insurance Company
Statement of Assets and Liabilities
As of December 31, 2012

Assets	Ledger	Nonledger	Not Admitted	Net Admitted
Cash on hand	$ 200	$ 0	$ 0	$ 200
Cash in checking	17,211	0	0	17,211
Cash deposited at interest	213,041	0	0	213,041
Stocks and mutual fund investments	286,694	0	0	286,694
Premiums, agents' balances and installments:				
In course of collection	1,787	0	0	1,787
Investment income accrued	0	1,225	0	1,225
Electronic data processing equipment	1,500	0	0	1,500
Reinsurance premium recoverable	5,542	0	0	5,542
Furniture and fixtures	30	0	30	0
Other nonadmitted assets:				
Prepaid expenses	2,340	0	2,340	0
Totals	$528,345	$1,225	$2,370	$527,200

Liabilities and Surplus

Net unpaid losses	$ 37,520
Unpaid loss adjustment expenses	810
Commissions payable	8,035
Fire department dues payable	310
Unearned premiums	173,473
Amounts withheld for the account of others	1,143
Payroll taxes payable (employer’s portion)	449
Other liabilities:	
Expense-related:	
Accrued property taxes	15
Nonexpense-related:	
Premiums received in advance	27,463
Total liabilities	249,218
Policyholders' surplus	277,982
Total Liabilities and Surplus	$527,200

New Hope Mutual Insurance Company
Statement of Operations
For the Year 2012

Net premiums and assessments earned		$ 246,666
Deduct:		
Net losses incurred	$112,432	
Net loss adjustment expenses incurred	17,325	
Net other underwriting expenses incurred	219,230	
Total losses and expenses incurred		348,987
Net underwriting gain (loss)		(102,321)
Net investment income:		
Net investment income earned		(10,491)
Other income (expense):		
Miscellaneous	30,575	
Total other income		30,575
Net income (loss) before federal income taxes		(82,237)
Net Income (Loss)		$ (82,237)

New Hope Mutual Insurance Company
Reconciliation and Analysis of Surplus as Regards Policyholders
For the Five-Year Period Ending December 31, 2012

	2012	2011	2010	2009	2008
Surplus, beginning of year	$412,768	$509,235	$514,798	$628,892	$708,130
Net income	(82,237)	(96,057)	(21,048)	(74,937)	(96,685)
Net unrealized capital gain or (loss)	(52,577)	(4,227)	12,881	(32,997)	17,250
Change in nonadmitted assets	28	3,817	2,603	(6,161)	198
Other gains and (losses) in surplus:					
Rounding			1	1	1
Surplus, End of Year	$277,982	$412,768	$509,235	$514,798	$628,892

Reconciliation of Policyholders' Surplus

The examination resulted in no adjustments to policyholders' surplus. The amount reported by the company as of December 31, 2012, 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. EDP Equipment—It is recommended that the company properly calculate depreciation on EDP equipment in accordance with the Town Mutual Annual Statement Instructions.

   Action—Compliance

2. Net Unpaid Losses—It is recommended that, in future years, the company increase its Incurred But Not Reported (IBNR) reserves to more reasonably reflect IBNR development.

   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 do not include language indicating the agent will represent the company's interests in good faith. Wisconsin Statutes define “good faith” as honesty in fact and the observance of reasonable commercial standards of fair dealing. It is recommended that the company execute formal written agreements with its agents that include language indicating that 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 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. Conflict of interest questionnaires were reviewed for the period under examination with no apparent conflict being noted.

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	$ 50,000
Worker's compensation:	
Employee injury	Statutory
Employee liability:	
Each accident	100,000
Each employee	100,000
Policy limit	500,000
Combined professional and D&O liability	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 has a formal inspection procedure for both new and renewal business. A sampling of new applications and renewal business is inspected by committee members who are independent of the risk under consideration and review.

Claims Adjusting

The company has 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.

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, 2012.

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

EDP Environment

Company personnel were interviewed with respect to the company's electronic data processing environment. Access to the computer is limited to people authorized to use the computer (the manager, and only employee of the company, whose home is the office space). Company personnel back up the computers daily and the backed-up data is kept off-site.

The company has a manual documenting the use of its software and outlining the steps to complete specific tasks. The manuals assist in the continuity of operations by providing instructions for seldom-used applications or when staff turnover occurs.

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.

The company is not in compliance with these requirements. The company has a custodial agreement with Waukesha State Bank dated September 13, 2002. However, during the review of the company's investments, it was discovered that all certificates of deposits owned by the company are issued in the name of Waukesha State Bank and are held by its investment advisor and broker, Wells Fargo Advisors, LLC. In a letter dated April 4, 2011, the company notified Waukesha State Bank that all investments that are subject to the custodial agreement should be held in an account in nominee name by Waukesha State Bank at Wells Fargo Advisors, LLS. This arrangement makes Wells Fargo Advisors, LLC effectively a sub-custodian of Waukesha State Bank. A review of the company's custodial agreement with Waukesha State Bank revealed that the custodian is responsible only for securities actually deposited with Waukesha State Bank. The agreement does not specify what responsibilities, if any, the custodian will have in the event a sub-custodian is used to hold the company's investments. It is recommended that the company revise its custodial agreement to extend the custodian's indemnification for negligence or dishonesty under the custodial agreement to apply to any sub-custodians.

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	$ 549,218
2.	Liabilities plus 33% of gross premiums written	438,484
3.	Liabilities plus 50% of net premiums written	374,081
4.	Amount required (greater of 1, 2, or 3)	549,218
5.	Amount of Type 1 investments as of 12/31/2012	230,252
6.	Excess or (deficiency)	$(318,966)

The company does not have sufficient Type 1 investments; it has not purchased any Type 2 investments during the period under examination.

ASSETS

Cash and Invested Cash **$230,452**

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

Cash in company's office	$ 200
Cash deposited in banks—checking accounts	17,211
Cash deposited in banks at interest	213,041
Total	$230,452

Cash in the company's office at year-end represents the company's petty cash fund. This balance was not tested by the examiners as it was below tolerable error of $1,390.

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

Cash deposited in banks represents the aggregate of eight deposits in eight depositories. Deposits were verified by direct correspondence with the respective depositories and by an actual count and inspection of certificates and/or passbooks. Interest received during the year 2012 totaled $4,322 and was verified to company cash records. Rates of interest earned on cash deposits ranged from .75% to 4.95% with two variable interest rate accounts. Accrued interest on cash deposits totaled $1,225 at year-end.

Stocks and Mutual Fund Investments **$286,694**

The above asset consists of the aggregate market value of stocks and mutual funds held by the company as of December 31, 2012. Stocks owned by the company are located in a safety deposit box at a local bank.

Stock certificates were physically examined by the independent public accounting firm and the examiners relied on the work performed. The company's investment in stocks and mutual funds 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 2012 on stocks and mutual funds amounted to $0. Accrued dividends were $0 at December 31, 2012.

Premiums, Agents' Balances in Course of Collection **$1,787**

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.

Investment Income Accrued **$1,225**

Interest due and accrued on the various assets of the company at December 31, 2012, consists of the following:

Cash deposited at interest	$1,225
Total	$1,225

Electronic Data Processing Equipment **$1,500**

The above balance consists of computer hardware and operating system software, net of depreciation as of December 31, 2012. A review of receipts and other documentation verified the balance. Non-operating system software was properly nonadmitted.

Reinsurance Premium Recoverable **$5,542**

The asset represents the amount of reinsurance premium that the company had overpaid as of December 31, 2012. The examiners verified the balance directly with the reinsurer.

LIABILITIES AND SURPLUS

Net Unpaid Losses **$37,520**

This liability represents losses incurred on or prior to December 31, 2012, 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, 2012, with incurred dates in 2012 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	$75,915	$54,574	$21,341
Less: Reinsurance recoverable on unpaid losses	38,378	26,582	11,796
Net Unpaid Losses	$37,537	$27,993	$ 9,544

The examiners concluded that the company estimate was reasonable and no surplus adjustment was made for this report.

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.

The examination also noted that the company routinely allows claims to remain open for a number of years without settlement while the company waits for information from the claimant or for the insured to repair covered damages. This practice may be interpreted to be an unfair settlement policy by failure to initiate and conclude claim investigations in a reasonable period of time. It also increases the company's exposure to additional loss sustained on damaged and unrepaired property. It is recommended that the company adopt procedures to assure the timely settlement of claims in compliance with s. Ins 6.11 (3) (a) 2., Wis. Adm. Code.

Unpaid Loss Adjustment Expenses **$810**

This liability represents the company's estimate of amounts necessary to settle losses which were incurred prior to December 31, 2012, but which remained unpaid as of year-end. The methodology used by the company in establishing this liability is an estimate based on a review of open claims reports.

Commissions Payable **$8,035**

This liability represents the commissions payable to agents as of December 31, 2012. The examiners reviewed the company's commission calculations and subsequent commission payments and found the liability to be reasonably stated.

Fire Department Dues Payable **$310**

This liability represents the fire department dues payable to the state of Wisconsin as of December 31, 2012.

Unearned Premiums **$173,473**

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.

Amounts Withheld for the Account of Others **$1,143**

This liability represents employee payroll deductions in the possession of the company at December 31, 2012.

Payroll Taxes Payable **$449**

This liability represents the company's portion of payroll taxes incurred prior to December 31, 2012, which had not yet been paid.

Accrued Property Taxes **$15**

This liability represents the personal property taxes accrued as of December 31, 2012.

Premiums Received in Advance **$27,463**

This liability represents the total premiums received prior to year-end for policies with effective dates after December 31, 2012. The examiners reviewed 2012 premium and cash receipt records to verify the accuracy of this liability.

Business Plan

The company's assets and surplus declined significantly between 2007 and 2012 as a result of underwriting and net losses sustained by the company in the last five years. This decline brought the company's December 31, 2012, surplus of $277,982, close to the $200,000 minimum surplus required by s. Ins 13.06 (4), Wis. Adm. Code.

The expense ratio has driven the combined ratio well above 100% in each year of the examination period. The high expense ratio is due, in part, to the company ceding a large percentage of its written premium to the reinsurer and, in part, due to the high commissions and personnel costs. Investment income was negative in 2011 and 2012 due to a lack of income-producing invested assets (investments are dominated by Wisconsin Reinsurance Corporation (WRC) common stock at 28.6% of net admitted assets) and expenses allocated to investment activity. The company derives miscellaneous income from policy and installments fees; however, this income has not been sufficient to offset underwriting and investment losses. All of these factors have resulted in an average net underwriting loss during the last five years of $105,000.

In July of 2013, the company renegotiated its 2013 reinsurance contract with the reinsurer which resulted in a decrease of reinsurance premium of approximately $56,000. As a condition for renegotiating and securing reinsurance coverage and to reverse a downward surplus trend, the company has implemented certain strategies designed to reduce expenses and improve underwriting results. The strategies that were approved by the company's board of directors included the following measures:

- Place a moratorium on all new business effective July 1, 2013.
- Decrease commissions to 16% beginning January 1, 2013, and to 15% beginning January 1, 2014.
- Discontinue health insurance for agents and reduce health insurance premium for the office manager effective January 1, 2013.

- Nonrenew policyholders with more than three claims in five years.

- Revise underwriting guidelines to include new requirements for electrical services and solid fuel appliances.

- Mandatory utilization of inspection reports, which historically have not been utilized. Currently, the manager is in the process of verifying that all properties comply with the recommendations made by the inspectors.

- Valuation for determining coverage may not exceed 10% of the valuation determined by the inspector and noted in the inspection report.

- Increase rates. Rates were increased in 2013; the company plans on increasing rates again effective January 1, 2014.

- Implement a minimum $500 deductible with no exceptions or grandfathered policies effective January 1, 2014.

- Add a wood stove surcharge of $50 to all properties with a wood, pellet, or other combustible material burning heat source.

- Increase policy fees to a minimum of $50 effective June 1, 2013.

- Use origin investigations for all fire losses over $25,000.

It is recommended that the company continue to take measures towards reducing expenses and improving underwriting results to assure that the company can meet its future obligations to its policyholders. It is further recommended that the company prepare and provide to this office reports, on a quarterly basis, assessing its performance under its business plan not later than 30 days after the end of each calendar quarter.

V. CONCLUSION

New Hope Mutual Insurance Company is a town mutual insurer covering a six-county area. The company has been in business for more than 126 years providing property and liability insurance to its policyholders.

In the five years since the prior examination, the company's gross premium written increased by 8% to $573,532, and net premium written decreased by 11% to $249,726. Total admitted assets decreased by 44% to $527,200 and surplus decreased by 61% to $277,982. The company reported a net underwriting loss in all five years of the period under examination.

In 2013 the company has implemented certain strategies designed to improve underwriting performance. These strategies include strengthening underwriting standards, including a temporary moratorium on all new business, reducing its commission rate and other underwriting expenses, increasing premium rates and policy fees, and improving inspection and loss prevention programs. The company also renegotiated its 2013 reinsurance contract with its reinsurer which resulted in reinsurance premium savings of approximately $56,000.

The current examination resulted in five recommendations and no examination adjustments to surplus.

New Hope Mutual Insurance Company will have many challenges to return to a financially strong company. The board of directors and management will need to work together to make sure business is properly underwritten and inspected and expenses are reduced. The board of directors needs to carry out their fiduciary responsibility by providing proper oversight of the company's operations.

VI. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 15 - Corporate Records—It is recommended that the company execute formal written agreements with its agents that include language indicating that the agent will represent the company's interests in good faith.

2. Page 18 - Invested Assets—It is recommended that the company revise its custodial agreement to extend the custodian's indemnification for negligence or dishonesty under the custodial agreement to apply to any sub-custodians.

3. Page 22 - Net Unpaid Losses—It is recommended that the company adopt procedures to assure the timely settlement of claims in compliance with s. Ins 6.11 (3) (a) 2., Wis. Adm. Code.

4. Page 25 - Business Plan—It is recommended that the company continue to take measures towards reducing expenses and improving underwriting results to assure that the company can meet its future obligations to its policyholders

5. Page 25 - Business Plan—It is further recommended that the company prepare and provide to this office reports, on a quarterly basis, assessing its performance under its business plan not later than 30 days after the end of each calendar quarter.

VII. ACKNOWLEDGMENT

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

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

Respectfully submitted,

Holly Poore
Examiner-in-Charge