

Report of the Examination of
Spring Grove Mutual Insurance Company
Brodhead, Wisconsin
As of December 31, 2019

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March 11, 2021

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:

SPRING GROVE MUTUAL INSURANCE COMPANY
Brodhead, Wisconsin

and the following report thereon is respectfully submitted:

I. INTRODUCTION

The previous examination of Spring Grove Mutual Insurance Company (the company) was made in 2013 as of December 31, 2012. 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 January 5, 1875, under the provisions of the then-existing Wisconsin Statutes. The original name of the company was the Mutual Fire Insurance Company of the Town of Spring Grove, Decatur, and Albany. 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 clarifies the business and writing territory of the company.

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:

Dane
Grant
Green
Iowa

Jefferson
Lafayette
Rock
Walworth

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 year with premiums payable on the advance premium basis. The company also charges a policy fee equal to \$30 for farmowners policies and \$25 for accident and health, renters, homeowners, and smaller farmowners policies. Additionally, the company charges \$10 for each installment for payment plans and \$35 for non-sufficient funds.

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

Type of Policy	Compensation
New Business	15%
Renewals	10%

Agents do not have authority to adjust losses. Losses are adjusted by an external adjuster. The adjuster receives \$50 an hour for claim adjusting services plus \$0.50 per mile for travel allowance.

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 policyholders listed below. Directors who are also agents are identified with an asterisk.

Name and Residence	Principal Occupation	Term Expires
Nikolaus Faessler Juda, Wisconsin	Farmer	2021
Steve Hazeltine Orfordville, Wisconsin	Business Owner	2021
Shelly Jordan* Juda, Wisconsin	Agent	2023
Rudolph Kaderly Juda, Wisconsin	Retired	2022
Glenn Marass Juda, Wisconsin	Banker	2022
Jeffery Meyer Monroe, Wisconsin	Adjuster	2023
Dennis Miller Brodhead, Wisconsin	Farmer	2022
Laura Shell* Janesville, Wisconsin	Company Manager	2021
Jeremy Zimmerman Monroe, Wisconsin	Business Owner	2023

Members of the board currently receive \$75 for each meeting attended and are reimbursed for travel according to the IRS guidelines for travel expenses.

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
Nikolaus Faessler	President
Jeffrey Meyer	Vice President
Laura Shell	Secretary, Treasurer, and Office Manager

Committees of the Board

The company's bylaws allow for the formation of certain committees by the board of directors. The company does not currently have any separate committees of the board. The entire board of directors acts as the adjusting and investment committees.

Growth of Company

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

Year	Net Premiums Earned	Policies In Force	Net Income	Admitted Assets	Policyholders' Surplus
2019	\$298,093	457	\$65,539	\$1,826,987	\$1,563,753
2018	265,118	456	38,168	1,710,277	1,474,802
2017	242,561	419	85,796	1,655,917	1,434,569
2016	215,523	399	52,990	1,488,578	1,305,670
2015	198,051	397	9,521	1,376,731	1,196,597
2014	190,978	376	(52,166)	1,359,493	1,175,061

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	Ratios Gross
2019	\$429,496	\$303,908	\$1,563,753	19%	27%
2018	417,049	285,413	1,474,802	19	28
2017	381,291	267,682	1,434,569	19	27
2016	361,995	219,400	1,305,670	17	28
2015	349,571	208,085	1,196,597	17	29
2014	328,928	233,067	1,175,061	20	28

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	\$141,299	\$146,734	\$298,093	47%	48%	95%
2018	135,395	136,715	265,118	51	48	99
2017	84,054	132,618	242,561	35	49	84
2016	75,229	131,444	215,523	35	60	95
2015	102,616	123,507	198,051	52	59	111
2014	154,072	129,976	190,978	80	56	136

The company has reported a net underwriting gain in three years and net income in each of the five years under examination. Since 2014, the company's surplus increased by 33%, gross premiums written increased by 30.5%, and net premiums written increased 30.4%. The increases in policyholders' surplus correspond to increases in net income and consistent increases in net premiums earned as well as policies in force.

Policies in force have increased each year since 2014, resulting in a net increase of 21.5% of policies in force over the five-year period. At the same time, the company's expense ratio decreased 14% leading to a composite ratio under 100% for four consecutive years.

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:	January 1, 2022, termination date; both parties must provide at least 90-days' notice in writing of cancelation.

The coverages provided under this treaty are summarized as follows:

- | | |
|----------------------|---------------------------------|
| Type of contract: | Casualty Excess of Loss |
| Lines reinsured: | Casualty and Liability Business |
| Company's retention: | \$5,000 |
| Coverage: | 100% in excess of \$5,000 |
| Reinsurance premium: | 60% of net premium |
- | | |
|----------------------|---|
| Type of contract: | First Surplus |
| Lines reinsured: | Property Business |
| Company's retention: | \$600,000 |
| Coverage: | \$2,000,000 in excess of \$600,000 |
| Reinsurance premium: | Pro rata portion of premium |
| Ceding commission: | 25% regular commission, 15% profit commission |
- | | |
|----------------------|--------------------------------|
| Type of contract: | First Per Risk Excess of Loss |
| Lines reinsured: | Property Business |
| Company's retention: | \$75,000 |
| Coverage: | \$75,000 in excess of \$75,000 |
| Reinsurance premium: | 6% of net premium |
- | | |
|-------------------|--------------------------------|
| Type of contract: | Second Per Risk Excess of Loss |
| Lines reinsured: | Property Business |

Company's retention:	\$150,000
Coverage:	\$450,000 in excess of \$150,000
Reinsurance premium:	4.5% of net premium
5. Type of contract:	First Aggregate Excess of Loss
Lines reinsured:	All business written
Company's retention:	75% of net premium Estimated attachment point is \$289,155
Coverage:	50% of the company's aggregate net losses, including loss adjustment expenses, which exceed the attachment point (50% in excess of 75%)
Reinsurance premium:	6.5% of net premium
6. Type of contract:	Second Aggregate Excess of Loss
Lines reinsured:	All Business Written
Company's retention:	125% of net premium
Coverage:	100% of all losses exceeding company retention (100% in excess of 125%)
Reinsurance premium:	2.5% of net premium

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."

Spring Grove Mutual Insurance Company
Statement of Assets and Liabilities
As of December 31, 2019

Assets	Ledger	Nonledger	Not Admitted	Net Admitted
Cash in company's office	\$ 50	\$	\$	\$ 50
Cash deposited in checking	98,956			98,956
Cash deposited at interest	401,521			401,521
Bonds	706,296			706,296
Stocks and mutual fund investments	529,904			529,904
Real estate	44,326			44,326
Premiums, agents' balances and installments:				
In course of collection	7,067			7,067
Deferred and not yet due	34,593			34,593
Investment income accrued		4,035		4,035
Reinsurance recoverable on paid losses and LAE	83			83
Reinsurance commission receivable	156			156
Rent Receivable	10,000		10,000	
Prepaid Expense	<u>4,100</u>	<u> </u>	<u>4,100</u>	<u> </u>
Totals	<u>\$1,837,052</u>	<u>\$4,035</u>	<u>\$14,100</u>	<u>\$1,826,987</u>

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

Liabilities and Surplus

Net unpaid losses	\$ 30,700
Loss adjustment expenses unpaid	1,000
Commissions payable	4,166
Fire department dues payable	868
Unearned premiums	195,618
Reinsurance payable	7,343
Amounts withheld for the account of others	2,226
Payroll taxes payable (employer's portion)	745
Other liabilities:	
Expense related:	
Accounts payable	1,190
Accrued property taxes	2,026
Nonexpense related:	
Policyholder dividends payable	<u>17,352</u>
Total Liabilities	263,234
Policyholders' Surplus	<u>1,563,753</u>
Total Liabilities and Surplus	<u>\$1,826,987</u>

Spring Grove Mutual Insurance Company
Statement of Operations
For the Year 2019

Net premiums and assessments earned		\$298,093
Deduct:		
Net losses incurred	\$124,321	
Net loss adjustment expenses incurred	16,978	
Net other underwriting expenses incurred	<u>146,734</u>	
Total losses and expenses incurred		<u>288,033</u>
Net underwriting gain (loss)		10,060
Net investment income:		
Net investment income earned	31,648	
Net realized capital gains (losses)	<u>12,024</u>	
Total investment gain (loss)		43,672
Other income (expense):		
Miscellaneous Income (Expenses)		<u>15,807</u>
Net Income (Loss)		<u>\$ 69,539</u>

Spring Grove 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:

	2019	2018	2017	2016	2015
Surplus, beginning of year	\$1,474,802	\$1,434,569	\$1,305,670	\$1,196,597	\$1,175,061
Net income (loss)	69,539	38,168	85,796	52,990	9,521
Net unrealized capital gain or (loss)	28,512	7,065	43,103	55,631	11,377
Change in non-admitted assets	<u>(9,100)</u>	<u>(5,000)</u>	<u>0</u>	<u>452</u>	<u>638</u>
Surplus, End of Year	<u>\$1,563,753</u>	<u>\$1,474,802</u>	<u>\$1,434,569</u>	<u>\$1,305,670</u>	<u>\$1,196,597</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. Corporate Records—It is recommended that the company accurately disclose the manager position and salary as directed by the Town Mutual Annual Statement Instructions and s. 611.63 (4), Wis. Stat.

Action—Compliance.

2. Underwriting—It is recommended that the company establish a formal inspection procedure for new and renewal business, whereby a sampling of new applications and of renewal business is inspected by committee members independent of the risk under consideration.

Action—Compliance.

3. Investment Rule Compliance—It is again recommended that the company follow its investment policy.

Action— Compliance.

4. Cash and Invested Assets—It is recommended that the company follow its check signing policy and have two signatures on all checks over \$2,000.

Action— Compliance.

5. Book Value of Bonds—It is recommended that the company properly classify its bonds between Type 1 and Type 2 investments in accordance with Town Mutual Annual Statement Instructions.

Action— Compliance.

6. Book Value of Bonds—It is recommended that, if the company invests in any variable rate corporate debt security, such security must have the following characteristics:
 - a. the reference for setting the interest rate must be a U.S. Dollar London Interbank Offered Rate of a single specified duration; and
 - b. the interest rate must have a floor in excess of zero percent; and
 - c. the total outstanding principal amount of the security at the time of issuance must equal or exceed \$250 million.

For the avoidance of any doubt, in investing in any variable rate corporate debt security, the company:

- a. may assume that any U.S. Dollar London Interbank Offered Rate will exceed zero percent; and
- b. may invest in a security that specifies some increment of interest in excess of a U.S. Dollar London Interbank Offered Rate of a single specified duration; and
- c. may invest in a security that is leveraged relative to a U.S. Dollar London Interbank Offered Rate of a single specified duration, provided that there is no basis point reduction in the index provided by the interest rate formula (for example, 125% of the 3-month U.S. Dollar London Interbank Offered Rate is acceptable, while 125% of the 3-month U.S. Dollar London Interbank Offered Rate minus 0.10% is not acceptable); and

- d. may not invest in a security that specifies some increment of interest less than a U.S. Dollar London Interbank Offered Rate of a single specified duration, unless such increment is expressed as a percentage of the index (for example, 80% of the 3-month U.S. Dollar London Interbank Offered Rate is acceptable, while the 3-month U.S. Dollar London Interbank Offered Rate minus 0.10% is not acceptable).

Action—Compliance.

7. Book Value of Bonds—It is further recommended that the company divest itself of any variable rate corporate debt security that does not meet the foregoing standards and provide this office with evidence of the disposal within 60 days of the adoption of this report.

Action—Compliance.

8. Book Value of Bonds—It is recommended that the company maintain prospectuses for its current investments.

Action—Compliance.

9. Book Value of Bonds—It is recommended that the minutes clearly indicate board approval of all investment transactions pursuant to s. Ins 6.20 (6) (h), Wis. Adm. Code.

Action—Compliance.

10. Book Value of Bonds—It is recommended that the board of directors modify its written investment policy to specify, in accordance with the instructions included in this report, acceptable characteristics of the investments in variable rate corporate debt securities, and provide this office with a copy of the revised investment policy within 60 days of the adoption of this report.

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 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." 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 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.

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	\$100,000
Workers Compensation:	
Employee injury	Statutory
Employee liability:	
Each accident	100,000
Each employee	100,000
Policy limit	500,000
Professional liability and directors and officers liability	1,000,000
Business owners:	
Commercial liability	2,000,000
Building and personal property	600,517
Insurance agents and brokers professional liability	1,000,000
Cyber 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, which is inspected by external inspectors and directors, is reviewed by the office manager and office support.

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, 2019.

The company is exempt from being annually audited by an outside public accounting firm under s. Ins. 50.02 (3) (c), Wis. Adm. Code.

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.

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	\$ 563,234
2. Liabilities plus 33% of gross premiums written	404,968
3. Liabilities plus 50% of net premiums written	415,188
4. Amount required (greater of 1, 2, or 3)	563,234
5. Amount of Type 1 investments as of 12/31/2019	<u>1,162,034</u>
6. Excess or (deficiency)	<u>\$ 598,800</u>

The company has sufficient Type 1 investments.

The company has been approved to hold 30% of admitted assets in common stock, preferred stock, and convertible securities.

Pursuant to s. Ins. 6.20 (6) (f) 1, Wis. Adm. Code, a town mutual insurer may not invest more than 3% of assets in securities of any single issuer, unless it obtains the prior written permission of the commissioner, or unless the investment is in securities of the government of the United States, or its instrumentalities or in securities guaranteed by the full faith and credit of the United States. Currently, the

company has one investment that exceeds the 3% limitation. The company's investment in Alliant Energy common stock, for three consecutive years, has been in excess of 3% of assets with a market value \$138,669 as of December 31, 2019. The company has not obtained prior written permission of the commissioner, nor is the investment in securities of the government of the United States, and therefore, is not in compliance with the investment rule. It is recommended that the company reduce its common stock holdings in Alliant Energy in an amount sufficient to comply with s. Ins. 6.20 (6) (f) 1, Wis. Adm. Code.

Bonds

This asset represents bonds held as of December 31, 2019. The examiner verified bond details reported on the Annual Statement as of December 31, 2019, by reviewing bond prospectuses and other supporting documents. During the review of bond details, it was noted that the CUSIP numbers and maturity dates for several bonds were reported incorrectly. It is recommended that the company use the correct CUSIP numbers and maturity dates when reporting investments on the annual statement.

V. CONCLUSION

Spring Grove Mutual Insurance Company is a town mutual insurer with an authorized territory of eight counties. The company has been in business since 1875, providing property and liability insurance to its policyholders.

The company has experienced net income in each of the past five years. Admitted assets increased 34%, net premiums written increased 30%, and surplus has increased 33% during the past five years.

The examination did not result in any changes to surplus. The company has complied with all recommendations from the previous examination report. The current examination resulted in three recommendations as summarized in the following section.

VI. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 17 - 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 20 - Investment Rule Compliance— It is recommended that the company reduce its common stock investment in Alliant Energy in order to comply with s. Ins 6.20 (6) (f) 1, Wis. Adm. Code.
3. Page 21 - Bond Reporting— It is recommended that the company use the correct CUSIP numbers and maturity dates when reporting investments on the annual statement.

VII. ACKNOWLEDGMENT

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

In addition to the undersigned, Shelly Bueno 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 "N. Hartwig", is written over a light gray rectangular background.

Nicholas Hartwig
Examiner-in-Charge

VIII. SUBSEQUENT EVENT

On March 11, 2020, the World Health Organization declared coronavirus disease (COVID-19) a pandemic. As of the date of this report, significant uncertainty remains on the effect that the pandemic will have on the company, insurance industry, and economy at large. The examination's review of the impact to the company through the date of this report noted that there has not been a significant impact to the company overall; however, due to the various uncertainties with the pandemic, it is unclear whether this will continue to have a minimal impact to the company or if it will escalate. The Office of the Commissioner of Insurance continues to closely monitor the impact of the pandemic on the company and will take necessary action if a solvency concern arises.