Report of the Examination of

Jewelers Mutual Insurance Company

Neenah, Wisconsin

As of December 31, 2018

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State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

Tony Evers, Governor Mark V. Afable, Commissioner

Wisconsin.gov

September 17, 2019

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Honorable Mark V. Afable Commissioner of Insurance State of Wisconsin 125 South Webster Street Madison, Wisconsin 53703

Commissioner:

In accordance with your instructions, a compliance examination has been made of the affairs and financial condition of:

JEWELERS MUTUAL INSURANCE COMPANY Neenah, Wisconsin

and this report is respectfully submitted.

#### I. INTRODUCTION

The previous examination of Jewelers Mutual Insurance Company (the company or JMIC) was conducted in 2014 as of December 31, 2013. The current examination covered the intervening period ending December 31, 2018, and included a review of such 2019 transactions as deemed necessary to complete the examination.

The examination of the company was conducted concurrently with the examination of an affiliated company, JM Specialty Insurance Company (JMSI), also domiciled in Wisconsin.

The examination was conducted using a risk-focused approach in accordance with the National Association of Insurance Commissioners (NAIC) *Financial Condition Examiners Handbook.* This approach sets forth guidance for planning and performing the examination of an insurance company to evaluate the financial condition, assess corporate governance, identify current and prospective risks (including those that might materially affect financial condition, either currently or prospectively), and evaluate system controls and procedures used to mitigate those risks.

All accounts and activities of the company were considered in accordance with the risk-focused examination process. This may include assessing significant estimates made by management and evaluating management's compliance with statutory accounting principles, annual statement instructions, and Wisconsin laws and regulations. The examination does not attest to the fair presentation of the financial statements included herein. If during the course of the examination an adjustment is identified, the impact of such adjustment will be documented separately at the end of the "Financial Data" section in the area captioned "Reconciliation of Surplus per Examination."

Emphasis was placed on those areas of the company's operations accorded a high priority by the examiner-in-charge when planning the examination.

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.

## **Independent Actuary's Review**

An independent actuarial firm was engaged under a contract with the Office of the Commissioner of Insurance. The actuary reviewed the adequacy of the company's loss and loss adjustment expense reserves. The actuary's results were reported to the examiner-in-charge. As deemed appropriate, reference is made in this report to the actuary's conclusion.

#### **II. HISTORY AND PLAN OF OPERATION**

The company is a mutual property and casualty insurer which was incorporated in March 1913 and commenced business in June 1914. The company writes fire, allied lines, commercial multi-peril, and inland marine coverage on retail, wholesale, and manufacturing jewelers and watchmakers, as well as inland marine coverage on personal jewelry. The company is licensed in all 50 states and writes business in all states as well as the District of Columbia and all provinces in Canada.

In 2018, the company wrote direct premium in the following states:

	A 0-000-0	40 404
Florida	\$ 27,869,550	12.4%
New York	26,843,630	11.9
California	24,922,444	11.1
Texas	20,925,004	9.3
New Jersey	11,205,876	5.0
All others	<u> 112,954,878</u>	50.3
Total	<u>\$224,721,382</u>	<u>100.0</u> %

The largest line, inland marine, includes both personal and commercial products.

Commercial policies include jewelers block and commercial property and liability coverages. The major products are marketed through approximately 750 independent agents and through direct marketing. A majority of the commercial business is obtained through independent agents; personal jewelry coverage is written on a direct basis through web-based sites or from the JMIC call center, or through affiliation relationships with other companies and through other company programs or marketing relationship programs. The company has a high interest in security issues in the jewelry industry. The company also provides other services to the jewelry industry including risk management and loss control and prevention services and a service contract/extended warranty program through its affiliated JM Care Plan, Inc. (Care Plan) and JM Care Plan Services, Inc (Care Plan Services). JM Specialty Insurance Company was formed in January 2017 as a stock property and casualty insurance subsidiary of Jewelers Mutual Insurance Company to provide specialized insurance coverage for jewelry.

The following table is a summary of the net insurance premiums written by the company in 2018. The growth of the company is discussed in the "Financial Data" section of this report.

Line of Business	Direc Premit	-	Reinsurance Assumed		nsurance Ceded	-	Net mium
Fire Allied lines	•	1,389 6,769	\$0	\$	300,983 6,744	\$	406 25
Commercial multiple		•			,		
peril	26,277	7,346		3	3,622,210	22	655,136
Ocean marine	140	),133			0		140,133
Inland marine	197,808	3,700		4	4,172,048	193	636,652
Other liability –							
occurrence	187	7,04 <u>5</u>			_		<u>187,045</u>
Total All Lines	\$224,721	1,382	<u>\$0</u>	<u>\$8</u>	3,101,98 <u>5</u>	<u>\$216</u>	619,397

#### **III. MANAGEMENT AND CONTROL**

#### **Board of Directors**

The board of directors consists of 11 members. These directors include 10 "outside" directors, plus the Chief Executive Officer of the company (CEO). Directors typically serve three-year terms, though the terms directors are nominated to serve may vary from one to three years to help regulate board continuity. The CEO is nominated annually for a one-year term. Directors nominated for board service are elected at the annual meeting of members each May. Officers are elected at the board's annual organizational meeting that follows the annual meeting of members. The board members currently receive a total annual retainer of \$70,000 for board service to JMIC and JMSI; the chair and vice chair of the board and board committees receive supplemental fees for service in those leadership positions, as described below. Total incremental board officer compensation for serving JMIC and JMSI is as follows:

- Board Chair \$50,000
- Board Vice Chair \$20,000
- Audit Committee Chair \$20,000
- Compensation Committee Chair \$10,000
- Investment Committee Chair \$7,500
- Governance Committee Chair \$7,500
- Audit Committee Vice Chair \$6,000
- Compensation Committee Vice Chair \$4,000
- Investment Committee Vice Chair \$3,000
- Governance Committee Vice Chair \$3,000

Currently the board of directors consists of the following persons:

Name and Residence	Principal Occupation	Term Expires
Alexander Barcados Toronto, Ontario, Canada	Co-owner C.D. Barcados Co. Ltd.	2019
Jonathan Bridge Seattle, Washington	Retired Co-CEO and General Counsel Ben Bridge Jeweler, Inc.	2020
Mark Fiebrink Pewaukee, Wisconsin	Retired Insurance Executive	2020
Dione Kenyon Warwick, Rhode Island	Retired Financial Services Executive	2020
David Lundgren Chillmark, Massachusetts	CEO Quantemplate	2019

Name and Residence	Principal Occupation	Term Expires
Sherry Manetta Avon, Connecticut	Managing Director Glenwood Strategies, LLC	2020
Marianne Marck Bainbridge Island, Washington	Chief Information Officer Ritchie Bros. Auctioneers	2020
David Scott Murphy Menasha, Wisconsin	President and CEO Jewelers Mutual Insurance Company	2019
Robert Reeg St. Louis, Missouri	Principal Owner RWReeg Consulting, LLC	2020
Kurt Steckbeck Chicago, Illinois	President and Owner CLAS Advisors, LLC	2020
Craig Underwood Fayetteville, Arkansas	Retail Jeweler Underwood's Fine Jewelers	2019
John Ward Cincinnati, Ohio	Founder and CEO Cincinnatus Partners	2019

# Officers of the Company

The officers serving at the time of this examination are as follows:

Name	Office	2018 Compensation*
David Scott Murphy	President and CEO	\$1,513,164
John Cowden**	VP, Chief Financial Officer and Treasurer	172,374
Mark Willson	VP, General Counsel and Corporate Secretary	341,777
Michael Alexander	Senior VP, Commercial Lines	661,642
Bryon Nelson	VP, Product Management and Risk Management	347,167
Michael Pelto	Chief Information Officer	407,026
Dylan Place	VP, Actuarial Services	325,994
Victoria Lindamood***	Chief Human Resources Officer	420,423

# **Committees of the Board**

The company's bylaws allow for the formation of certain committees by the board of directors. The committees as of December 31, 2018 are listed below:

<sup>\*</sup>Total compensation from JMSI and JMIC.
\*\*John Cowden was Chief Financial Officer of JMIC until June of 2019.

<sup>\*\*\*</sup>Victoria Lindamood was Chief Human Resources Officer of JMIC until September of 2018.

# **Audit Committee**

Sherry Manetta, Chair John Ward, Vice Chair Alexander Barcados Mark Fiebrink Dione Kenyon

#### **Governance Committee**

Kurt Steckbeck, Chair Alexander Barcados, Vice Chair Jonathan Bridge David Scott Murphy Craig Underwood

# **Compensation Committee**

Dione Kenyon, Chair Craig Underwood, Vice Chair David Lundgren Mark Fiebrink John Ward

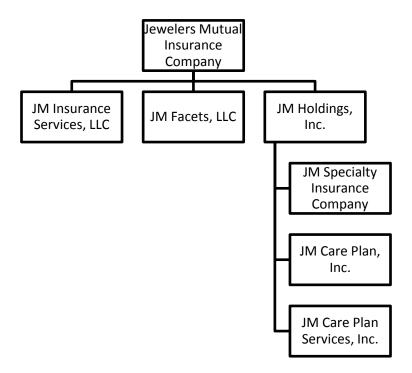
#### **Investment Committee**

David Lundgren, Chair Jonathan Bridge, Vice Chair Sherry Manetta David Scott Murphy Kurt Steckbeck

#### **IV. AFFILIATED COMPANIES**

JMIC is the ultimate parent of a holding company system. The company has three direct subsidiaries – JM Holdings, Inc. (Holdings), JM Insurance Services, LLC (JMIS), and JM Facets, LLC (Facets). The organizational chart below depicts the relationships among the affiliates in the group. A brief description of the significant affiliates follows the organizational chart.

### Organizational Chart As of December 31, 2018



#### JM Insurance Services, LLC

JM Insurance Services, LLC (JMIS) was organized in 2000 to act as an insurance agency on behalf of JMIC. As of December 31, 2018, the unaudited financial statements of JMIS reported assets of \$2,330,000, liabilities of \$1,427,000, and equity of \$903,000. Operations for 2018 produced a net loss of \$596,000.

#### JM Facets, LLC

JM Facets, LLC (Facets) was formed in 2017 to facilitate the exploration of new business opportunities for JMIC and its subsidiaries. Facets offers products and services to support JMIC's core insurance operations. As of December 31, 2018, the unaudited financial

statements of Facets reported assets of \$7,057,000, liabilities of \$2,196,000, and equity of \$4,861,000. Operations for 2018 produced a net loss of \$762,000.

#### JM Holdings, Inc.

JM Holdings, Inc. (Holdings) is a non-operational holding company and has three wholly owned subsidiaries: JMSI, JM Care Plan, Inc., and JM Care Plan Services, Inc. Holdings was formed in 1997 to provide corporate development activities and support profitable growth for JMIC and its subsidiaries. As of December 31, 2018, the unaudited financial statements of Holdings reported assets of \$15,053,000, liabilities of \$0, and equity of \$15,053,000. Operations for 2018 produced net income of \$0.

#### JM Specialty Insurance Company

JM Specialty Insurance Company (JMSI) is an insurance company formed in 2017 to provide specialized insurance coverage for jewelry. At year-end December 31, 2018, JMSI had not started to write any business. As of December 31, 2018, the unaudited financial statements of JMSI reported assets of \$15,050,727, liabilities of \$150,548, and surplus as regards policyholders of \$14,900,179. Operations for 2018 produced net income of \$473,422.

## JM Care Plan, Inc.

JM Care Plan, Inc. (Care Plan) was formed in 2016 to offer a jewelry service contract/extended warranty program. As of December 31, 2018, the unaudited financial statements of Care Plan reported assets of \$6,372,000, liabilities of \$6,628,000, and equity of \$(256,000). Operations for 2018 produced a net loss of \$348,000.

#### JM Care Plan Services, Inc.

JM Care Plan Services, Inc. (Care Plan Services) was formed in 2017 to offer the jewelry service contract program in certain states that Care Plan does not serve, namely in the states of Washington, Oklahoma, and Florida. Together, Care Plan and Care Plan Services offer the program in all 50 states. As of December 31, 2018, the unaudited financial statements of Care Plan Services reported assets of \$363,000, liabilities of \$55,000, and equity of \$309,000. Operations for 2018 produced net income of \$2,000.

#### **Jewelers Security Alliance**

Jewelers Security Alliance (JSA), a nonprofit trade association located in New York
City, was formed in 1883 to assist the jewelry industry in crime prevention. The organization
compiles data on all types of criminal activity that affects the jewelry industry. This information is
distributed to JSA members through publications, a website, seminars, and consulting activities.

JSA also provides technical information on alarm systems, safes, and other crime prevention
hardware, and shares data and analysis with the FBI and local law enforcement agencies.

JMIC believes that it has benefited from its policyholders' membership in JSA and has instituted a program in which it pays the JSA membership fee each year for its commercial policyholders. JMIC believes JSA's activities are an integral part of its loss control efforts.

# **Management Agreements**

Effective June 1, 2016, the company entered into separate management agreements with its subsidiaries, JMIS, Holdings, and Care Plan. The company entered into a management agreement with its subsidiaries, Facets, Care Plan Services, and JMSI, effective April 18, 2017, May 3, 2017, and April 1, 2018, respectively. Under each aforementioned management agreement, the company agrees to furnish each subsidiary employees, infrastructure, and other services and to make cost allocations for the services provided.

## **Tax Sharing Agreement**

Effective January 3, 2017, or the subsidiary company's date of organization or incorporation, whichever came later, the company entered into a tax sharing agreement with JMSI and a tax sharing joinder agreement to add Holdings, JMIS, Care Plan, Care Plan Services, and Facets to the tax sharing agreement with JMSI. JMIC prepares and files consolidated tax returns for JMIC and each subsidiary. Quarterly estimated tax payments from each subsidiary are due to JMIC not less than one business day prior to the due date for consolidated estimated tax. Final settlement is due within one business day preceding the due date for the consolidated return.

# **Quota Share Reinsurance Agreement**

The company has an affiliated quota share reinsurance agreement which is described in section V of this report captioned "Reinsurance."

#### V. REINSURANCE

The company's reinsurance portfolio and strategy are described below. A list of the companies that have a significant amount of reinsurance in force at the time of the examination follows. The contracts contained proper insolvency provisions. The company's reinsurance program covers commercial and personal business through a broker; the company complied with the Reinsurance Intermediary regulation. JMIC has historically ceded a relatively small amount of business. Any new business written by JMSI will be 100% ceded to JMIC.

#### **Nonaffiliated Ceding Contracts**

Reinsurers:

Type: Property Per Risk Excess of Loss

<u>Laye</u>	<u>er</u>
Name <u>First</u>	Second
Aspen Re America, Inc., o/b/o Aspen Ins (UK) 5.00%	10.00%
Employers Mutual Casualty Company 10.00	10.00
Hannover Rück SE 30.00	15.00
Korean Reinsurance Company 5.00	7.50
Partner Reinsurance Company of the US 10.00	10.00
R+V Versicherung AG 12.50	12.50
Renaissance Reinsurance U.S. Inc. 17.50	22.50
Shelter Mutual Insurance Company 2.50	5.00
The Toa Reinsurance Company of America7.50	<u>_7.50</u>
Total <u>100.00</u> %	<u>100.00</u> %

Scope:

All policies classified by the company as property business: flood, earthquake, fire, allied lines, commercial policies, inland marine, including jewelers block (commercial business), and personal jewelry (personal business)

Following retention, coverage, and premium when it applies to United States, dollar sign indicates U.S. dollar; when it applies to Canada, dollar sign indicates Canadian dollar.

		First Layer (Commercial)	First Layer (Personal)	Second Layer
Retention: (Each loss, eac	ch risk)	\$2 million	\$1 million	\$7 million
Coverage:	Each loss, each risk Any loss occurrence	\$5 million \$10 million	\$6 million \$12 million	\$13 million \$26 million
Premium:	First Layer: Deposit premium installments. Premium is c			•

Minimum premium is \$824,000.

Second Layer: Deposit premium of \$475,000, payable in four equal installments. Premium is calculated at 0.76% of net earned premium.

Minimum premium is \$380,000.

Commissions: First Layer only: 30% of reinsurance premium exceeding the sum of losses

and loss expense, the outstanding loss and loss expense reserves, 25% of

income, and the deficit incurred by each subscribing reinsurer

Effective date: January 1, 2019, through January 1, 2020.

2. Type: Property Excess Cessions

Reinsurers: XL Reinsurance America Inc. 15.00%

Lloyd's Underwriter Syndicates:

#1861 ATL 18.00 #2001 AML 32.50 #2003 XLC 27.50 Gen Re- Direct Market 7.00%

Total <u>100.00</u>%

Scope: All policies classified by the company as property business

Following retention, coverage, and premium when it applies to United States,

dollar sign indicates U.S. dollar; when it applies to Canada, dollar sign

indicates Canadian dollar.

Retention: \$20 million

Coverage: 100% of \$100,000,000 each and every loss each and every risk or risk unit in

excess of \$20,000,000 each and every loss each and every risk or risk unit.

Premium: For policy values \$20,000,000 excess of \$30,000,000 in respect of all risks,

0.13175% based on exposed values hereon

For policy values \$30,000,000 excess of \$50,000,000 in respect of all risks,

0.1100% based on exposed values hereon

For policy values in excess of \$50,000,000 in respect of all risks, 0.0750%

based on exposed values hereon

For trade shows and exhibitions at a rate of 0.0250% for the length of the

trade shows/exhibitions

Deposit premium of \$1 million, payable in four equal installments

Commissions: No commission or contingent commission provisions

Effective date: January 1, 2019, through January 1, 2020.

Type: Casualty Excess of Loss

Reinsurers: General Reinsurance Corporation

Scope: Businessowners coverage with respect to insured domiciled in the U.S. and

in Canada and commercial liability umbrella coverage with respect to insured

domiciled in the U.S. only.

Following retention, coverage, and premium when it applies to United States,

dollar sign indicates U.S. dollar; when it applies to Canada, dollar sign

indicates Canadian dollar.

Retention: \$2 million

Coverage:	Each Occurrence	First \$4 million	Excess Cover Second \$5 million	Third \$2 million
	All occurrences	\$11 million	\$20 million	\$4 million
Premium:	Rate (subject earned premium)	2.23%	0.40%	0.02%
	Deposit (payable in four equal insta	\$275,000 Ilments)	\$50,000	\$25,000
	Minimum	\$0	\$50,000	\$25,000

Commissions: No commission or contingent commission provisions

Effective date: January 1, 2019, through January 1, 2020.

4. Type: Property Catastrophe Excess of Loss 2018 Two-Year Contract

Reinsurers:		<u>Layer</u>	
	Name:	<u>First</u>	Second
	Allied World Assurance Company Ltd.	5.00%	5.00%
	Employers Mutual Casualty Company	2.00	2.00
	Korean Reinsurance Company	5.00	5.00
	Mapfre Re, Compañia de Reaseguros S. A.	3.00	3.00
	R+V Versicherung AG	12.50	12.50
	Renaissance Reinsurance U.S. Inc.	7.50	7.50
	Total Placement for 2019	35.00%	35.00%

Scope: All policies classified by the company as property business

Following retention, coverage, and premium when it applies to United States, dollar sign indicates U.S. dollar; when it applies to Canada, dollar sign indicates Canadian dollar.

		<u>Layer</u>		
		<u>First</u>	<u>Second</u>	
Retention:		\$5 million	\$20 million	
Coverage:	Each loss occurrence:	\$15 million	\$40 million	

All loss occurrences \$30 million \$80 million

(during 2019 agreement year)

Premium: Deposit premium is made at participation level. See placement above.

First Layer: 1.825% of the company's subject net earned premium with a minimum premium of \$852,000; deposit premium of \$1,065,000 shall be

payable in quarterly installments

Second Layer: 1.645% of the company's subject net earned premium with a minimum premium of \$768,000; deposit premium of \$960,000 shall be

payable in quarterly installments

Commissions: No commission or contingent commission provisions

Effective date: 2018 Two-Year Contract: January 1, 2018, through January 1, 2020.

5. Type: Property Catastrophe Excess of Loss 2019 One-Year Contract

Reinsurers:		Lay	<u>er</u>
	Name:	<u>First</u>	Second
	DUAL Corporate Risks UK	4.00%	4.00%
	Hannover Rück SE	7.00	6.00
	Shelter Reinsurance Company	0.00	5.00
	The Toa Reinsurance Company of America	7.50	0.00
	Tokio Millennium Reinsurance Limited	0.00	3.50
	Lloyd's Underwriter Syndicates:		
	#0609 AUW	1.00	1.00
	#2088 CNR	1.00	1.00
	# 4000 PEM	1.00	1.00
	Total Placement for 2019	<u>21.50</u> %	<u>21.50</u> %

Scope: All policies classified by the company as property business

Following retention, coverage, and premium when it applies to United States, dollar sign indicates U.S. dollar; when it applies to Canada, dollar sign indicates Canadian dollar.

		<u>Layer</u>			
		<u>First</u>	<u>Second</u>		
Retention:		\$4 million	\$20 million		
Coverage:					
J	Each loss occurrence:	\$16 million	\$30 million		
	All loss occurrences \$32 million \$60 million (during the term of the agreement)				
Premium:	Deposit premium is made at participation le	vel. See placem	ent above.		

Deposit premium is made at participation level. See placement above.

First Layer: 1.936% of the company's subject net earned premium with a minimum premium of \$928,000; deposit premium of \$1,160,000 shall be payable in quarterly installments

Second Layer: 1.202% of the company's subject net earned premium with a minimum premium of \$576,000; deposit premium of \$720,000 shall be

payable in quarterly installments

Commissions: No commission or contingent commission provisions

Effective date: January 1, 2019, through January 1, 2020.

6. Type: Property Catastrophe Excess of Loss 2019 Two-Year Contract

Reinsurers:		<u>Lay</u>	<u>er</u>
	Name:	First	Second
	Allied World Assurance Company Ltd.	5.00%	5.00%
	Employers Mutual Casualty Company	3.00	3.00
	10.00	10.00	
	Mapfre Re, Compañia de Reaseguros S. A.	3.00	3.00
	R+V Versicherung AG	15.00	15.00
	Renaissance Reinsurance U.S. Inc.	7.50	7.50
	Total Placement for 2019	<u>43.50</u> %	<u>43.50</u> %

Scope: All policies classified by the company as property business

Following retention, coverage, and premium when it applies to United States, dollar sign indicates U.S. dollar; when it applies to Canada, dollar sign indicates Canadian dollar.

		Layer		
		<u>First</u>	<u>Second</u>	
Retention:		\$4 million	\$20 million	
Coverage:	Each loss occurrence:	\$16 million	\$30 million	
	All loss occurrences (during 2019 agreement year)	\$32 million	\$60 million	

Premium: Deposit premium is made at participation level. See placement above.

> First Layer: 1.936% of the company's subject net earned premium with a minimum premium of \$928,000; deposit premium of \$1,160,000 shall be payable in quarterly installments

Second Layer: 1.202% of the company's subject net earned premium with a minimum premium of \$576,000; deposit premium of \$720,000 shall be

payable in quarterly installments

Commissions: No commission or contingent commission provisions

Effective date: January 1, 2019, through January 1, 2021.

7. Type: **Employment Practices Liability Quota Share** 

Reinsurer: General Reinsurance Corporation Effective date: February 5, 2014

Scope: Insurance classified by the company as employment practices liability

Retention: 25% for policies that have not been underwritten

Coverage: 75% for policies that have not been underwritten up to \$100,000. Separate

policy limits for loss and loss adjustment expense will have separate

coverages.

Premium: 75% of premium written

Commission: 25% of reinsurance premium

Termination: 90 days' notice by either party

8. Type: Equipment Breakdown

Reinsurer: Hartford Steam Boiler Inspection and Insurance Company and, for Canadian

risks, Boiler Inspection and Insurance Company of Canada

Scope: Equipment breakdown liability

Retention: None

Coverage: 100% of the equipment breakdown liability not to exceed \$25 million for any

one accident, any one policy

Premium: Annual premium of \$48 per location for owners and \$29 per location for

tenants

Commission: 35% of reinsurance premium

Effective date: January 1, 2013

Termination: 180 days' prior notice by either party

9. Type: Cyber Liability Quota Share

Reinsurer: Lloyd's Underwriter Syndicates

#0510 KLN 36.00% #1880 TMK 20.00 #4141 HCC 44.00

Total <u>100.00</u>%

Scope: Cyber liability

Retention: 10% share of the liability that may accrue to the company as a result of

claims made under cyber liability endorsements attaching to policies written or renewed during the term of the agreement, not to exceed following

aggregate, any one endorsement:

Montana \$1.05 million
Florida, Louisiana, Oklahoma, and Vermont \$2 million
All other \$1 million

Coverage: 90% share all business reinsured

Premium: 90% of gross net written premium income

Commissions: 40% of reinsurance premium

Effective date: September 1, 2018, through September 1, 2019.

## **Affiliated Assuming Contracts**

1. Type: Quota Share

Reinsured: JMSI

Scope: Every binder, policy, or contract of insurance issued, accepted or

held, covered by or on behalf of JMSI

Retention: None

Coverage: 100% of the direct losses plus the direct allocated loss expenses

less any salvage, subrogation or other recoveries plus assumed

losses and assumed allocated loss expenses

Premium: 100% of the direct written premium less returns and

cancellations, plus assumed written premium

Commissions: Underwriting expenses; any taxes, fees, or expenses payable by

JMSI in connection with the covered policies; any unallocated loss expenses; and all expenses necessary to manage the

business JMIC assumes

Effective date: June 1, 2018 until termination

Termination: Either company has the right to terminate the agreement as of

any January 1, following not less than 90 days' prior written

notice.

# **VI. FINANCIAL DATA**

The following financial statements reflect the financial condition of the company as reported to the Commissioner of Insurance in the December 31, 2018, annual statement.

Adjustments made as a result of the examination are noted at the end of this section in the area captioned "Reconciliation of Surplus per Examination." Also included in this section are schedules that reflect the growth of the company, NAIC Insurance Regulatory Information System (IRIS) ratio results for the period under examination, and the compulsory and security surplus calculation.

# Jewelers Mutual Insurance Company Assets As of December 31, 2018

	Assets	Nonadmitted Assets \$	Net Admitted Assets
Bonds Stocks:	\$251,725,822	Φ	\$251,725,822
Common stocks  Mortgage loans on real estate:	110,814,930	152,890	110,662,039
First liens Real estate:	65,935		65,935
Occupied by the company Properties held for the	9,739,342		9,739,342
production of income Cash, cash equivalents, and	1,627,339		1,627,339
short-term investments	16,381,505		16,381,505
Other invested assets	36,462,131	5,520,719	30,941,412
Investment income due and	00, 102, 101	0,020,7 10	00,011,112
accrued	2,350,965		2,350,965
Premiums and considerations: Uncollected premiums and agents' balances in course	2,000,000		2,000,000
of collection Deferred premiums, agents' balances, and installments booked but deferred and	1,127,329	1,462	1,125,867
not yet due	34,674,572		34,674,572
Reinsurance:	34,074,372		34,074,372
Amounts recoverable from			
reinsurers	290,112		200 112
	290,112		290,112
Current federal and foreign			
income tax recoverable and interest thereon	176 606		176 606
	176,636		176,636
Electronic data processing equipment and software	1,953,292		1,953,292
Furniture and equipment,	1,900,292		1,955,292
including health care delivery	0 650 652	9 6E0 6E2	
assets Receivable from parent,	8,650,652	8,650,652	
subsidiaries, and affiliates	2,266,439		2,266,439
Write-ins for other than	2,200,439		2,200,439
invested assets:			
	2 244 442	2 244 442	
Other prepaid expenses Other miscellaneous	2,341,113	2,341,113	
receivable	400 704	105 010	10.060
receivable	498,704	<u>485,842</u>	12,862
Total Assets	<u>\$481,146,819</u>	<u>\$17,152,679</u>	<u>\$463,994,140</u>

This Office approved a permitted practice for JMIC to admit unaudited value in JMSI within its financial statements for calendar years 2017 and 2018. The statutory surplus of JMSI was \$13.9 million as of December 31, 2017 and \$14.9 million as of December 31, 2018.

# Jewelers Mutual Insurance Company Liabilities, Surplus, and Other Funds As of December 31, 2018

Losses		\$ 21,191,426
Loss adjustment expenses		6,855,924
Commissions payable, contingent commissions, and		
other similar charges		2,999,577
Other expenses (excluding taxes, licenses, and fees)		16,546,473
Taxes, licenses, and fees (excluding federal and		
foreign income taxes)		2,282,330
Net deferred tax liability		1,845,847
Unearned premiums		112,517,089
Ceded reinsurance premiums payable (net of ceding		
commissions)		196,993
Amounts withheld or retained by company for		
account of others		420,685
Remittances and items not allocated		2,081,813
Net adjustments in assets and liabilities due to		4 00= 40=
foreign exchange rates		1,935,437
Write-ins for liabilities:		404 =04
Liability for NQDB benefits		101,724
Liability for postretirement benefits		<u>(159,585</u> )
Total Liabilities		168,815,733
	•	
Unassigned funds (surplus)	\$295,178,407	
Surplus as Regards Policyholders		295,178,407
Total Liabilities and Surplus		<u>\$463,994,140</u>

# Jewelers Mutual Insurance Company Summary of Operations For the Year 2018

Underwriting Income Premiums earned		\$205,920,886
Deductions:    Losses incurred    Loss adjustment expenses incurred    Other underwriting expenses incurred Total underwriting deductions Net underwriting gain (loss)	\$75,942,410 15,601,861 <u>86,872,179</u>	178,416,450 27,504,437
Investment Income Net investment income earned Net realized capital gains (losses) Net investment gain (loss)	8,729,630 <u>6,471,037</u>	15,200,667
Other Income  Net gain (loss) from agents' or premium balances charged off  Finance and service charges not included in premiums  Write-ins for miscellaneous income:  Miscellaneous income/expense  Total other income	(223,602) 1,203,394 (117,882)	<u>861,910</u>
Net income (loss) after dividends to policyholders but before federal and foreign income taxes Federal and foreign income taxes incurred		43,567,013 8,569,318
Net Income		\$ 34,997,695

# Jewelers Mutual Insurance Company Cash Flow For the Year 2018

Premiums collected net of reinsurance Net investment income Miscellaneous income Total			\$215,681,417 11,627,401 <u>861,910</u> 228,170,728
Benefit- and loss-related payments Commissions, expenses paid, and		\$77,304,136	220,170,720
aggregate write-ins for deductions Federal and foreign income taxes paid		93,145,741	
(recovered)		11,526,019	
Total deductions			<u> 181,975,896</u>
Net cash from operations			46,194,832
Proceeds from investments sold,			
matured, or repaid:			
Bonds	\$68,118,105		
Stocks	17,520,037		
Mortgage loans	24,104		
Other invested assets	13,654,019		
Miscellaneous proceeds	<u>100,318</u>		
Total investment proceeds		99,416,583	
Cost of investments acquired (long-term			
only):			
Bonds	93,388,743		
Stocks	14,662,786		
Real estate	217,872		
Other invested assets	21,777,135		
Total investments acquired		130,046,537	
Net cash from investments			(30,629,954)
Cash from financing and miscellaneous			
sources:			
Other cash provided (applied)			(10,569,130)
Reconciliation:			
Net Change in Cash, Cash Equivalents,			
and Short-Term Investments			4,995,749
Cash, cash equivalents, and short-term			, ,
investments:			
Beginning of year			11,385,756
End of Year			<u>\$ 16,381,505</u>

# Jewelers Mutual Insurance Company Compulsory and Security Surplus Calculation December 31, 2018

Assets Less security surplus of insurance subsidiaries Less liabilities		\$463,994,140 2,800,000 168,815,733
Adjusted surplus		292,378,407
Annual premium: Lines other than accident and health Factor	\$217,713,558 	
Compulsory surplus (subject to a minimum of \$2 million)		43,542,711
Compulsory Surplus Excess (Deficit)		\$248,835,696
Adjusted surplus (from above)		\$292,378,407
Security surplus (140% of compulsory surplus, factor reduced 1% for each \$33 million in premium written		
in excess of \$10 million, with a minimum factor of 110%)		58,347,232
Security Surplus Excess (Deficit)		<u>\$234,031,175</u>

# Jewelers Mutual Insurance Company Analysis of Surplus For the Five-Year Period Ending December 31, 2018

The following schedule details items affecting surplus during the period under examination as reported by the company in its filed annual statements:

	2018	2017	2016	2015	2014
Surplus, beginning of					
year	\$282,495,227	\$247,307,386	\$226,469,665	\$207,715,065	\$182,583,391
Net income	34,997,695	23,521,519	11,656,235	15,464,472	16,297,140
Change in net unrealized					
capital gains/losses	(17,322,554)	15,859,964	5,066,019	(2,250,160)	2,284,442
Change in net unrealized foreign exchange	, , ,			, , ,	
capital gains/losses	(258,825)	547,196	556,115	(1,029,502)	(254,475)
Change in net deferred	( / /	,	,	( ,, ,	( - , - )
income tax	2,359,731	(2,430,669)	(117,795)	606,309	1,364,982
Change in nonadmitted	, , -	( ,,,	( ,,	,	, ,
assets	(7,095,300)	(2,052,543)	3,565,912	4,822,030	5,024,241
Other surplus changes	(1,000,000)	(2,002,010)	0,000,012	1,022,000	0,021,211
– benefit plans	2,432	(257,626)	111,234	1.141.451	
Transition amounts for	2, 102	(201,020)	111,201	.,,	
SSAP 92 and 102					415,344
Surplus, End of Year	\$295,178,407	\$282,495,227	\$247,307,386	\$226,469,665	\$207,715,065
- a.p.a.c,a or roar	<del>4=00,.70,107</del>	<del>4_0_,.00,221</del>	<del>~=,501,000</del>	<del>4==0,.00,000</del>	<del>y=0. j. 10,000</del>

# Jewelers Mutual Insurance Company Insurance Regulatory Information System For the Five-Year Period Ending December 31, 2018

The company's NAIC Insurance Regulatory Information System (IRIS) results for the period under examination are summarized below. Unusual IRIS results are denoted with asterisks and discussed below the table.

	Ratio	2018	2017	2016	2015	2014
#1	Gross Premium to Surplus	76%	73%	76%	77%	78%
#2	Net Premium to Surplus	73	69	73	73	74
#3	Change in Net Premiums Written	10	9	9	8	7
#4	Surplus Aid to Surplus	0	0	0	0	0
#5	Two-Year Overall Operating Ratio	81	84	85	83	83
#6	Investment Yield	2.1	1.8*	2.0*	1.9*	1.8*
#7	Gross Change in Surplus	4	14	9	9	14
#8	Change in Adjusted Surplus	4	14	9	9	14
#9	Liabilities to Liquid Assets	37	36	37	37	37
#10	Agents' Balances to Surplus	0	1	1	1	1
#11	One-Year Reserve Development					
	to Surplus	0	-1	-2	-1	-2
#12	Two-Year Reserve Development					
	to Surplus	-0	-2	-1	-2	-4
#13	Estimated Current Reserve					
	Deficiency to Surplus	1	-1	-2	-1	0

Ratio No. 6, Investment Yield, measures the profitability and provides an indication of the general quality of the company's investment portfolio over the previous two-year period. The main reasons for this low investment yield are the significant investments in municipal bonds and the low yields that were available in the fixed income markets.

**Growth of Jewelers Mutual Insurance Company** 

Admitted Assets	Liabilities	Surplus as Regards Policyholders	Net Income
\$463,994,140	\$168,815,733	\$295,178,407	\$34,997,695
442,431,373	159,936,146	282,495,227	23,521,519
397,808,608	150,501,222	247,307,386	11,656,235
365,317,184	138,847,519	226,469,665	15,464,472
338,736,201	131,021,136	207,715,065	16,297,140
304,935,604	122,352,213	182,583,391	17,391,872
	\$463,994,140 442,431,373 397,808,608 365,317,184 338,736,201	Assets       Liabilities         \$463,994,140       \$168,815,733         442,431,373       159,936,146         397,808,608       150,501,222         365,317,184       138,847,519         338,736,201       131,021,136	Admitted AssetsRegards Policyholders\$463,994,140\$168,815,733\$295,178,407442,431,373159,936,146282,495,227397,808,608150,501,222247,307,386365,317,184138,847,519226,469,665338,736,201131,021,136207,715,065

Year	Gross Premium Written	Net Premium Written	Premium Earned	Loss and LAE Ratio	Expense Ratio	Combined Ratio
2018	\$224,721,382	\$216,619,397	\$205,920,886	44.5%	39.7%	84.2%
2017	204,867,165	196,274,705	187,900,028	42.8	41.5	84.3
2016	189,044,964	180,596,179	173,225,530	48.4	42.3	90.7
2015	174,341,008	165,904,993	159,397,380	44.9	41.4	86.3
2014	161,749,632	154,017,539	148,944,805	44.2	42.2	86.4
2013	151,646,412	143,763,198	138,142,943	43.5	41.4	84.9

During the five years under examination, admitted assets grew 52%, liabilities grew 38%, and surplus grew 62%. This growth was primarily driven by strong operating results in all years since the previous examination and net unrealized and realized gains from investments.

JMIC has been consistently profitable, with substantial underwriting gains each of the last five years. Net income rose to \$34 million in 2018. The company implements various loss-prevention strategies to mitigate losses.

The company saw an increase of 48% in gross premium written, 50% in net premium written, and 49% in premium earned over the past five years. The company has made moves to expand its business written in personal lines as an important complement to its commercial business, while still emphasizing the crucial linkages between its personal and commercial business.

# **Reconciliation of Surplus per Examination**

No adjustments were made to surplus as a result of the examination. The amount of surplus reported by the company as of December 31, 2018, is accepted.

# **VII. SUMMARY OF EXAMINATION RESULTS**

# **Compliance with Prior Examination Report Recommendations**

There were no comments and recommendations in the previous examination report.

#### **Summary of Current Examination Results**

This section contains comments and elaboration on those areas where adverse findings were noted or where unusual situations existed. Comment on the remaining areas of the company's operations is contained in the examination work papers.

#### **Reserving and Reporting**

The independent actuarial firm, engaged under a contract with the Office of the Commissioner of Insurance, noted that although the JMIC Appointed Actuary's gross and net ranges of reserve estimates can be discerned from the Actuarial Report and accordingly compared to booked reserves, and this information is also presented in the Actuarial Opinion Summary, it has not been summarized in the Actuarial Report, as required by NAIC Annual Statement Instructions — Property & Casualty. It is recommended that the Actuarial Report include an exhibit that ties to the Annual Statement and compares the Appointed Actuary's conclusions to the carried amounts consistent with the segmentation of exposure or liability groupings used in the analysis, as stated in NAIC Annual Statement Instructions — Property & Casualty.

#### **Executive Compensation**

The State of Wisconsin requires that each Wisconsin-domiciled insurer file a supplement to the annual statement entitled "Report on Executive Compensation" pursuant to s. 611.63 (4), Wis. Stat. This report should include annual compensation to each director and each officer and member of executive management of the insurer whose compensation exceeds specified amounts. Compensation reported should include all gross direct and indirect remuneration paid and accrued during the report year for the benefit of an individual director, officer, or manager, and shall include wages, stock grants, gains from the exercise of stock options, and all other forms of personal compensation (including employer-paid health, life, and any other premiums). The examination noted that the Report on Executive Compensation filed for 2018 did not include employer-paid health insurance and other employer paid contributions. It is recommended that the company comply with s. 611.63 (4), Wis. Stat., by reporting all

compensation received by officers, executive management, and directors in accordance with the instructions stated on the Report on Executive Compensation.

#### VIII. CONCLUSION

Jewelers Mutual Insurance Company has been in business for 100+ years, offering insurance coverage to the jewelry industry. The company writes business in all areas of the country. During the five years under examination, admitted assets grew 52%, liabilities grew 38%, and surplus grew 62%. As JMIC continues to grow and exhibit solid financial results, the company earned substantial underwriting gains each of the last five years. Net income rose to \$34 million in 2018. The company implements various loss-prevention strategies to mitigate losses.

JMIC saw an increase of 48% in gross premium written, 50% in net premium written, and 49% in premium earned over the past five years. The company has made moves to expand its business written in personal lines as an important complement to its commercial business.

The previous examination of JMIC resulted in no recommendations. The current examination resulted in two recommendations, one related to reporting of executive compensation, and one relating to reporting of reserve estimates. No adjustments were made to surplus as a result of the examination.

# IX. SUMMARY OF COMMENTS AND RECOMMENDATIONS

- 1. Page 29 Reserving and Reporting—It is recommended that the Actuarial Report include an exhibit that ties to the Annual Statement and compares the Appointed Actuary's conclusions to the carried amounts consistent with the segmentation of exposure or liability groupings used in the analysis, as stated in NAIC Annual Statement Instructions Property & Casualty.
- 2. Page 29 Management and Control—It is recommended that the company comply with s. 611.63 (4), Wis. Stat., by reporting all compensation received by officers, executive management, and directors in accordance with the instructions stated on the Report on Executive Compensation.

#### X. ACKNOWLEDGMENT

The courtesy and cooperation extended during the course of the examination by the officers and employees of the company are acknowledged.

In addition to the undersigned, the following representatives of the Office of the Commissioner of Insurance, State of Wisconsin, participated in the examination:

Name	Title
INAILIE	11115

Martha Goettelman Insurance Financial Examiner John Pollock Insurance Financial Examiner Mark McNabb Insurance Financial Examiner Xiaozhou Ye Insurance Financial Examiner David Jensen, CFE IT Specialist Reserve Specialist

Respectfully submitted,

James R. Lindel

James Lindell Examiner-in-Charge

#### **XI. SUBSEQUENT EVENTS**

On September 12, 2019, at the Special Policyholder Meeting, the company's policyholders approved the company's proposal to restructure into a mutual holding company and convert JMIC into a stock insurance company wholly owned by the mutual holding company (the MHC plan). The Wisconsin Office of the Commissioner of Insurance approved the MHC plan on September 12, 2019. According to the MHC plan, JMIC will incorporate JM New Holdings, Inc., as a Wisconsin business corporation under Chapter 180 of the Wisconsin Statutes. JMIC will also incorporate and fund a mutual holding company, as a Wisconsin mutual holding company pursuant to s. 644.07 (10) (a), Wis. Stat. The mutual holding company will be issued 100% of the initial shares of voting stock of JM New Holdings, Inc., in exchange for 100% of the shares of the converted JMIC. JMIC will transfer 100% of its membership interest in JM Facets, LLC and JM Insurance Services, LLC to JM New Holdings, Inc. The effective date of the restructure is January 1, 2020.