

Report  
of the  
Examination of  
Bristol Town Insurance Company  
Sun Prairie, Wisconsin  
As of December 31, 2013

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# State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

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

*Wisconsin.gov*

June 24, 2014

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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, 2013, of the affairs and financial condition of:

BRISTOL TOWN INSURANCE COMPANY  
Sun Prairie, Wisconsin

and the following report thereon is respectfully submitted:

## I. INTRODUCTION

The previous examination of Bristol Town Insurance Company (the company) was made in 2009 as of December 31, 2008. The current examination covered the intervening time period ending December 31, 2013, 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.

A public accounting firm performs non-auditing services for the company, which includes preparing the annual statement. On December 31, 2013, a CPA audit exemption was granted by the Commissioner.

The company was organized as a town mutual insurance company on April 15, 1875, under the provisions of the then existing Wisconsin Statutes. The original name of the company

was the Farmers 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 was one amendment to the articles of incorporation and no amendments to the bylaws. Article III of the Articles of Incorporation was amended to allow the membership of the board of directors to consist of between five and nine directors instead of being fixed at nine.

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

Columbia	Dodge
Dane	Jefferson

A review was made of the policy and application forms currently used by the company. The company issues approved policies with or without endorsements for terms of three years with premiums payable on the advance premium basis. The company also charges a policy fee equal to \$20 and a \$5 service charge for each payment if the premium is paid in installments.

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

<b>Type of Policy</b>	<b>Compensation</b>
Property	15%
Nonproperty	15

The Manager has authority to adjust losses up to \$2,500. Losses in excess of this amount are adjusted by two officers, who may designate another director to act in their place. Adjusters receive \$50 for a half day and \$80 for a full day, for each loss adjusted plus \$0.45 a 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 seven 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:

<b>Name</b>	<b>Principal Occupation</b>	<b>Residence</b>	<b>Expiry</b>
Robert E. Rademacher	Farmer	DeForest	2015
Stephen Aime	Electrician	DeForest	2015
Bruce P. Krebs*	Farmer	Sun Prairie	2015
John Stier	Farmer	Sun Prairie	2016
Robert A. Derr	Retired/Farmer	Marshall	2016
Marvin McCoy	Retired/Farmer	Sun Prairie	2017
Alan Rademacher	Farmer	Sun Prairie	2017

Directors who are also agents are identified with an asterisk.

Members of the board currently receive \$50 for a half day and \$80 for a full day for each meeting attended and \$0.45 a mile 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 offices for three years or until their successors are duly elected and qualified. Officers serving at the present time are as follows:

<b>Name</b>	<b>Office</b>	<b>Compensation</b>
Robert E. Rademacher	President	\$ 350
Stephen Aime	Vice President	300
Bruce P. Krebs	Secretary, Treasurer, and Manager	32,400

Reported compensation is the total compensation paid by the insurer for the year and includes salary, commissions, director fees and rental income as applicable.

## 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
2013	\$60,862	164	\$(66,290)	\$ 987,469	\$ 923,370
2012	60,575	164	(283)	1,045,044	986,265
2011	47,865	165	(35,047)	1,067,711	1,015,684
2010	62,794	170	2,893	1,103,327	1,053,112
2009	81,823	174	29,962	1,093,273	1,042,970
2008	77,682	194	31,249	1,100,287	1,032,140

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

Year	Gross Premiums Written	Net Premiums Written	Policyholders' Surplus	Writings Net	Ratios Gross
2013	\$155,811	\$62,954	\$ 923,370	6.82%	16.87%
2012	149,242	64,337	986,265	6.52	15.13
2011	149,398	51,995	1,015,684	5.12	14.71
2010	148,238	63,321	1,053,112	6.01	14.08
2009	146,312	66,144	1,042,970	6.34	14.03
2008	202,524	86,596	1,032,140	8.39	19.62

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	Combined Ratio
2013	\$68,220	\$64,583	\$60,862	112%	103%	215%
2012	9,835	63,314	60,575	16	98	115
2011	41,921	58,065	47,865	88	112	199
2010	24,554	65,664	62,794	39	104	143
2009	15,408	71,216	81,823	19	108	127
2008	18,109	64,342	77,682	23	74	97

Surplus decreased by 10.5% since the last examination, while gross premium written and net premium written decreased by 23.1% and 27.3%, respectively, and policy count decreased by 15.5%. The company is in stable financial condition due to its very favorable surplus position. However, the company has had underwriting losses throughout the period under examination because its small volume of premium is insufficient to cover the modest expenses associated with its operations, resulting in underwriting expenses over 100% in four of

the past five years, and a combined ratio well above 100% for each of the past five years. The company has not had property rate adjustments since 2003. The company relies on investment income to cover its modest overhead expenses which, combined with the lack of property rate adjustments, has resulted in negative net income for the past three years due to the low interest rate environment. The company does not have a history of large losses but had two large losses in 2013 totaling approximately \$60,000.

## 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, 2014

Termination provisions: 90-day advance notice in writing

The coverages provided under this treaty are summarized as follows:

1. Type of contract: Class A (Liability)  
Lines reinsured: Liability  
Company's retention: None  
Coverage: 100% quota share  
Reinsurance premium: 100% of net premium written  
\$22,000 annual deposit premium  
Ceding commission: 15% of the premium paid to reinsurer
2. Type of contract: Class B (First Surplus)  
Lines reinsured: Property  
Company's retention: \$300,000  
Coverage: Up to \$800,000 on a pro rata basis  
Reinsurance premium: Pro rata share of all premiums and fees charged by the company corresponding to the amount of each risk ceded  
Annual deposit premium of \$49,355  
Ceding commission: 15% of all premium  
15% of the profit of reinsurer
3. Type of contract: Class C-1 (Excess of Loss)  
Lines reinsured: Property  
Company's retention: \$35,000  
Coverage: \$65,000 excess of \$35,000

- |                      |  |
|----------------------|--|
| Reinsurance premium: | Rate 7.0% of the company's net premiums in respect to the business covered<br>Annual deposit premium \$5,645   |
| 4. Type of contract: | Class C-2 (Excess of Loss)   |
| Lines reinsured:     | Property   |
| Company's retention: | \$100,000  |
| Coverage:            | \$200,000 excess of \$100,000  |
| Reinsurance premium: | Rate 6% of the company's net premiums in respect to the business covered<br>Annual deposit premium \$4,839   |
| 5. Type of contract: | Class D/E (Stop Loss)  |
| Lines reinsured:     | Property   |
| Company's retention: | 90%  |
| Coverage:            | 100% of the amount by which the aggregate of the company's losses exceed the retention. Loss adjustment expenses shall be recoverable on a proportionate basis.<br>Estimated attachment point \$72,581 |
| Reinsurance premium: | Rate 7% of the company's net premiums in respect to the business covered<br>Annual deposit premium \$5,645   |

### **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, 2013, 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."

**Bristol Town Mutual Insurance Company**  
**Statement of Assets and Liabilities**  
**As of December 31, 2013**

<b>Assets</b>	<b>Ledger</b>	<b>Nonledger</b>	<b>Not Admitted</b>	<b>Net Admitted</b>
Cash in checking	\$ 9,870	\$	\$	\$ 9,870
Cash deposited at interest	650,000			650,000
Stocks and mutual fund investments	314,024			314,024
Premiums, agents' balances and installments:				
Deferred and not yet due	8,428			8,428
Investment income accrued		512		512
Electronic data processing equipment	186			186
Fire dues recoverable	98			98
Other expense-related assets:				
Reinsurance commission receivable	4,351			4,351
Furniture and fixtures	<u>336</u>	<u>      </u>	<u>336</u>	<u>      </u>
<b>Totals</b>	<b><u>\$987,293</u></b>	<b><u>\$512</u></b>	<b><u>\$336</u></b>	<b><u>\$987,469</u></b>

**Liabilities and Surplus**

Net unpaid losses	\$ 1,901
Commissions payable	1,264
Unearned premiums	53,633
Reinsurance payable	7,213
Payroll taxes payable (employer's portion)	<u>88</u>
<b>Total liabilities</b>	<b>64,099</b>
Policyholders' surplus	<u>923,370</u>
<b>Total Liabilities and Surplus</b>	<b><u>\$987,469</u></b>

**Bristol Town Mutual Insurance Company**  
**Statement of Operations**  
**For the Year 2013**

Net premiums and assessments earned		\$ 60,862
Deduct:		
Net losses incurred	\$61,379	
Net loss adjustment expenses incurred	6,841	
Net other underwriting expenses incurred	<u>64,583</u>	
Total losses and expenses incurred		<u>132,803</u>
Net underwriting gain (loss)		(71,941)
Net investment income:		
Net investment income earned	<u>2,116</u>	
Total investment gain (loss)		2,116
Other income (expense):		
Miscellaneous income	<u>3,535</u>	
Total other income		<u>3,535</u>
Net Income (Loss)		<u><u>\$(66,290)</u></u>

**Bristol Town Mutual Insurance Company**  
**Reconciliation and Analysis of Surplus as Regards Policyholders**  
**For the Five-Year Period Ending December 31, 2013**

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

	<b>2013</b>	<b>2012</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>
Surplus, beginning of year	\$986,265	\$1,015,684	\$1,053,112	\$1,042,970	\$1,032,140
Net income	(66,290)	(283)	(35,047)	2,893	29,962
Net unrealized capital gain or (loss)	3,161	(29,391)	(1,868)	7,147	(18,908)
Change in nonadmitted assets	<u>234</u>	<u>255</u>	<u>(513)</u>	<u>102</u>	<u>(224)</u>
Surplus, End of Year	<u>\$923,370</u>	<u>\$ 986,265</u>	<u>\$1,015,684</u>	<u>\$1,053,112</u>	<u>\$1,042,970</u>

**Reconciliation of Policyholders' Surplus**

The examination resulted in no adjustments to policyholders' surplus and no reclassifications. The amount reported by the company as of December 31, 2013, is accepted.

#### **IV. SUMMARY OF EXAMINATION RESULTS**

##### **Compliance with Prior Examination Report Recommendations**

There were no comments and recommendations contained in the last examination.

## **Current Examination Results**

### **Corporate Records**

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

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

The company has executed formal written agreements with its agents. The contracts include language indicating the agent will represent the company's interests "in good faith," but the "right of first refusal" clause is not clear and does not protect the company, and the agent contracts do not include any requirement for errors and omissions coverage. It is suggested that the company revise its agent agreements to provide that the company has the right of first refusal if the agent wishes to sell their book of company business and that the agent maintain errors and omissions coverage.

### **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 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	\$ 50,000
Worker's compensation:	
Employee injury	Statutory
Employee liability:	
Each accident	100,000
Each employee	5,000
Policy limit	1,000,000
Aggregate limit (other than products completed operations)	2,000,000
Products completed operations aggregate limit	2,000,000
Money and securities:	
Inside the premises	10,000
Outside the premises	5,000

### **Underwriting**

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

The company does not have a formal inspection procedure for both new and renewal business. The company believes that conducting formal written inspections will cause the company to lose policyholders due to the close relationships already established with policyholders in the community. Examiners believe this is acceptable due to the fact that underwriting income loss is primarily due to the size of the company, and formal inspections would increase company costs.

The company has not increased property rates since 2003. The company believes that increasing rates will cause the company to lose policyholders. However, regularly reviewing rate adequacy will assist the company in keeping up with rising costs. It is recommended that the company perform a rate adequacy review at least annually to verify that rates are adequate and make decisions based on the results.

### **Claims Adjusting**

The company has an adjusting committee consisting of at least three directors as required by s. 612.13 (4), Wis. Stat. The company uses the full board as its adjusting committee. 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.

The Manager records cash receipts and disbursements, prepares cash deposits, signs checks, and reconciles the bank accounts due to the small size of the company.

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, 2013.

The company is not audited annually by an outside public accounting firm since it is exempt from this requirement pursuant to s. Ins 50.02 (3), Wis. Adm. Code.

## **EDP Environment**

Company personnel were interviewed with respect to the company's electronic data processing environment. Access to the computers is limited to people authorized to use the computers. The company's computer data is backed up automatically by an internet-based back-up service.

## **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 only change during the period under examination is that the company's computer data is being backed up automatically at an internet-based back-up service instead of personnel having to back it up. 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. The Manager has access to and single signature authority for the company safety deposit box. However, the safety deposit box contains only securities that, in a practical sense, are nonnegotiable.

## 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	\$364,099
2. Liabilities plus 33% of gross premiums written	115,517
3. Liabilities plus 50% of net premiums written	95,576
4. Amount required (greater of 1, 2, or 3)	364,099
5. Amount of Type 1 investments as of December 31, 2013	<u>699,413</u>
6. Excess or (deficiency)	<u>\$335,314</u>

The company has sufficient Type 1 investments.

## ASSETS

**Cash and Invested Cash** **\$659,870**

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

Cash in company's office	\$ 0
Cash deposited in banks—checking accounts	9,870
Cash deposited in banks at interest	<u>650,000</u>
Total	<u>\$659,870</u>

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 at interest represents the aggregate of 13 deposits in 7 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 2013 totaled \$4,204 and was verified to company cash records. Rates of interest earned on cash deposits ranged from 0.25% to 1%. Accrued interest on cash deposits totaled \$512 at year-end.

**Stocks and Mutual Fund Investments** **\$314,024**

The above asset consists of the aggregate market value of stocks and mutual funds held by the company as of December 31, 2013. Stocks owned by the company are located in the company's safety deposit box.

Stock certificates were physically examined by the examiners. Stock and mutual fund purchases and sales for the period under examination were checked to brokers' invoices and advices. The company's investment in stocks and mutual funds was not in conformance with Wisconsin Statutes and the rules of the Commissioner of Insurance as regards investments made by town mutual insurers. Aggregate investment in common stocks, preferred stocks, and mutual funds exceed 25% of invested assets. Total investment in these securities is \$274,481, while 25% of admitted assets is \$246,867. It is recommended that the company refrain from investing

in Type 2 preferred stocks and common stocks if such investment would exceed the 25% of admitted assets threshold unless prior written approval of this office is obtained.

Dividends received during 2013 on stocks and mutual funds amounted to \$4,861 and were traced to cash receipts records. The company had no accrued dividends at December 31, 2013.

**Premiums Deferred and Not Yet Due** **\$8,428**

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

**Investment Income Accrued** **\$512**

Interest due and accrued on the various assets of the company at December 31, 2013, was not verified because it did not meet the examination's materiality threshold.

**Electronic Data Processing Equipment** **\$186**

The above balance consists of computer hardware and operating system software, net of depreciation as of December 31, 2013. A review of receipts and other documentation was not performed because the amount did not meet the examination's materiality threshold.

**Fire Dues Recoverable** **\$98**

This asset represents the amount overpaid to the state of Wisconsin for 2013 fire dues. The examiner did not review the company's fire department dues calculation because the amount did not meet the examination's materiality threshold.

**Reinsurance Commission Receivable** **\$4,351**

The above asset represents the amount of reinsurance commissions that the company expected to receive as of December 31, 2013, under its contract with Wisconsin Reinsurance Corporation. A review of the terms of the reinsurance agreement and year-end accountings with the reinsurer verified the above asset.

**Furniture and Fixtures****\$0**

This asset consists of \$336 of software owned by the company at December 31, 2013. In accordance with annual statement requirements, this amount has been reported as nonadmitted asset, thus the balance shown above is \$0.

## LIABILITIES AND SURPLUS

**Net Unpaid Losses** **\$1,901**

This liability represents losses incurred on or prior to December 31, 2013, 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, 2013, on claims with incurred dates in 2013 and prior years. To the actual paid loss figure was added an estimated amount for 2013 and prior losses remaining unpaid at the time of the examination. 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	\$28,000	\$31,250	\$(3,250)
Less: Reinsurance recoverable on unpaid losses	<u>26,099</u>	<u>28,500</u>	<u>(2,401)</u>
<b>Net Unpaid Losses</b>	<b><u>\$ 1,901</u></b>	<b><u>\$ 2,750</u></b>	<b><u>\$ (849)</u></b>

The deficiency in the loss reserves was a result of losses that were incurred but not reported in 2013. The above difference of \$849 was not considered material for purposes of this examination. No adjustment to surplus was made.

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.

**Commissions Payable** **\$1,264**

This liability represents the commissions payable to agents as of December 31, 2013. The examiners did not review the company's commission calculation because the amount did not meet the examination's materiality threshold.

**Unearned Premiums****\$53,633**

This liability represents the reserve established for unearned premiums in compliance with s. Ins 13.08 (3), Wis. Adm. Code. This reserve was established by assuming unearned premium of policies on which premiums are paid annually are 50% of the net direct premium written for the year, less any unearned premiums held by the reinsurer.

**Reinsurance Payable****\$7,213**

This liability consists of amounts due to the company's reinsurer at December 31, 2013, relating to transactions which occurred on or prior to that date. This payable was established by subtracting 15% of the deferred premium amount of \$8,987.83 reported by Wisconsin Reinsurance Corporation as of December 31, 2013, and subtracting \$426.35, the amount overpaid and refunded to the company.

**Payroll Taxes Payable****\$88**

This liability represents the company's portion of payroll taxes incurred prior to December 31, 2013, which had not yet been paid. The examiners did not verify this payable because the amount did not meet the examination's materiality threshold.

## V. CONCLUSION

Bristol Town Insurance Company is a town mutual insurer with an authorized territory of four counties. The company has served the insurance needs of its policyholders since April 15, 1875.

As of December 31, 2013, the company reported assets of \$987,469, liabilities of \$64,099 and policyholders' surplus of \$923,370. Surplus decreased by 10.5% since the last examination, while gross premium written and net premium written decreased by 23.1% and 27.3%, respectively, and policy count decreased by 15.5%.

The following schedule summarizes the cumulative increases and decreases to the policyholders' surplus of Bristol Town Insurance Company from December 31, 2008, when policyholders' surplus was last verified by examination, to December 31, 2013:

Policyholders' surplus, December 31, 2008	\$1,032,140
Net income	(68,765)
Unrealized capital gains or (losses)	(39,859)
Change in nonadmitted assets	<u>(146)</u>
Policyholders' Surplus, December 31, 2013	<u>\$ 923,370</u>

The company is in stable financial condition due to its very favorable surplus position. However, the company has had underwriting losses throughout the period under examination because its small volume of premium is insufficient to cover the modest expenses associated with its operations, resulting in an underwriting expense ratio over 100% in four of the past five years, and a combined ratio well above 100% for each of the past five years. The company has not had property rate adjustments since 2003. The company relies on investment income to cover its modest overhead expenses which, combined with the lack of property rate adjustments, has resulted in negative net income for the past three years due to the low interest rate environment. The company does not have a history of large losses but had two large losses in 2013 totaling approximately \$60,000

Areas of improvement recommended by this examination were related to agent agreements, rate adequacy reviews, and investments, resulting in three recommendations. There were no adjustments to policyholders' surplus or reclassifications in the balance sheet.

## VI. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 13 - Corporate Records—It is suggested that the company revise its agent agreements to provide that the company has the right of first refusal if the agent wishes to sell their book of company business and that the agent maintain errors and omissions coverage.
2. Page 14 - Underwriting—It is recommended that the company perform a rate adequacy review at least annually to verify that rates are adequate and make decisions based on the results.
3. Page 17 - Stock and Mutual Fund Investments—It is recommended that the company refrain from investing in Type 2 preferred stocks and common stocks if such investment would exceed the 25% of admitted assets threshold unless prior written approval of this office is obtained.

## **VII. ACKNOWLEDGMENT**

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

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

Respectfully submitted,

Shelly Bueno  
Examiner-in-Charge