

Report of the Examination of
Germantown Mutual Insurance Company
Germantown, Wisconsin
As of December 31, 2019

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February 5, 2021

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:

GERMANTOWN MUTUAL INSURANCE COMPANY
Germantown, Wisconsin

and this report is respectfully submitted.

I. INTRODUCTION

The previous examination of Germantown Mutual Insurance Company (the company) was conducted in 2015 as of December 31, 2014. The current examination covered the intervening period ending December 31, 2019, and included a review of such subsequent transactions as deemed necessary to complete the examination.

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 the 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. Special attention was given to the action taken by the company to satisfy the recommendations and comments made in the previous examination report.

The company is annually audited by an independent public accounting firm as prescribed by s. Ins 50.05, Wis. Adm. Code. An integral part of this compliance examination was the review of the independent accountant's work papers. Based on the results of the review of these work papers, alternative or additional examination steps deemed necessary for the completion of this examination were performed. The examination work papers contain documentation concerning the alternative or additional examination steps performed during 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 was organized in 1854 as the state's first mutual insurance company. The company operated as a stock company from 1903 to 1906. In 1906 the company reverted to mutual company status. Germantown Mutual Insurance Company is a nonassessable, multiple-line property and casualty insurer.

In June 1999, the company completed a merger with Retail Lumbermen's Mutual Insurance Company of Wisconsin (Retail). Retail was also licensed in Michigan, Minnesota, and South Dakota, and owned an agency. Since the merger, the company sold the agency in 2000 and withdrew its license in South Dakota in 2003. In 2002, the company obtained a license in Utah to reduce its geographic concentration of property risks.

In 2019, the company wrote direct premium in the following states:

| | | |
|-----------|---------------------|---------------|
| Wisconsin | \$54,764,476 | 86.8% |
| Utah | <u>8,302,291</u> | <u>13.2</u> |
| Total | <u>\$63,066,767</u> | <u>100.0%</u> |

The company did not write any business in the states of Minnesota and Michigan during the examination period.

The major products marketed by the company include homeowners, personal automobile, commercial multi-peril, and farmowners. The company also provides fire, allied lines, inland marine, worker's compensation, and general liability coverage. The major products are marketed through approximately 2,000 independent agents operating out of 240 agencies.

The following table is a summary of the net insurance premiums written by the company in 2019. The growth of the company is discussed in the “Financial Data” section of this report.

| Line of Business | Direct Premium | Reinsurance Assumed | Reinsurance Ceded | Net Premium |
|---|----------------------------|----------------------------|---------------------------|----------------------------|
| Fire | \$ 2,449,778 | \$ | \$ 235,341 | \$ 2,214,437 |
| Allied lines | 902,303 | | 176,994 | 725,309 |
| Farmowners multiple peril | 2,227,346 | | 307,885 | 1,919,461 |
| Homeowners multiple peril | 18,689,617 | | 1,894,234 | 16,795,383 |
| Commercial multiple peril | 15,959,299 | | 2,355,142 | 13,604,157 |
| Inland marine | 506,138 | | 46,768 | 459,370 |
| Worker’s compensation | 1,431,544 | | 115,488 | 1,316,056 |
| Other liability – occurrence | 770,235 | | 499,220 | 271,015 |
| Private passenger auto liability | 10,909,205 | | 874,774 | 10,034,431 |
| Commercial auto liability | 666,310 | | 9,637 | 656,673 |
| Auto physical damage | 8,554,992 | | 283,106 | 8,271,886 |
| Reinsurance – nonproportional assumed property | | 118,796 | | 118,796 |
| Reinsurance – nonproportional assumed liability | | 8,910 | | 8,910 |
| Total All Lines | <u>\$63,066,767</u> | <u>\$127,706</u> | <u>\$6,798,589</u> | <u>\$56,395,884</u> |

III. MANAGEMENT AND CONTROL

Board of Directors

The board of directors consists of nine members. Three directors are elected annually to serve a three-year term. Officers are elected at the board's annual meeting. The board members currently receive a retainer fee of \$1,500 each quarter, \$1,500 per meeting attended, and \$500 per special meeting held for serving on the board.

Currently, the board of directors consists of the following persons:

| Name and Residence | Principal Occupation | Term Expires |
|--|--|---------------------|
| Thomas Albiero Germantown, Wisconsin | Dentist, Owner of Dental Professionals | 2023 |
| David Begalke Sheboygan, Wisconsin | Auditor, Owner of Begalka & Associates | 2022 |
| Teresa Charewicz Port Washington, Wisconsin | Corporate Secretary of Germantown Mutual Insurance Company | 2023 |
| Thomas Galle Hubertus, Wisconsin | President and Treasurer of Germantown Mutual Insurance Company | 2022 |
| David Kern Bonita Springs, Florida | Retired Lawyer, formerly with Quarles & Brady LLP | 2021 |
| Kevin O'Meara West Bend, Wisconsin | Legacy Advisor, Baird | 2022 |
| Richard Smith West Bend, Wisconsin | Executive Chairman of the Board of Germantown Mutual Insurance Company | 2023 |
| Donald Sturm Germantown, Wisconsin | Executive Vice President of Germantown Mutual Insurance Company | 2021 |
| Mel Wifler Fond du Lac, Wisconsin | Retired Insurance Company Executive | 2021 |

Officers of the Company

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

| Name | Office |
|------------------|--|
| Richard Smith | Executive Chairman of the Board |
| Thomas Galle | President and Treasurer |
| Donald Sturm | Executive Vice President, Underwriting |
| Teresa Charewicz | Corporate Secretary |
| James Weninger | Vice President, Claims |

| Name | Office |
|---------------|--|
| Jeremiah Behm | Assistant Treasurer and Controller |
| Brian Breest | Assistant Vice President, Commercial Lines Underwriting |
| Steven Havey | Assistant Vice President, Personal Lines Underwriting |
| Amanda Blank | Assistant Secretary |

Committees of the Board

The company's bylaws allow for the formation of certain committees by the board of directors.

The committees at the time of the examination are listed below:

Executive Committee

Richard Smith, Chair
Thomas Albiero
Donald Sturm

Audit Committee

Mel Wifler, Chair
David Begalke
David Kern

Compensation Committee

Kevin O'Meara, Chair
David Begalke
Richard Smith

Donation Committee

Richard Smith, Chair
Tom Galle
Donald Sturm

Investment Committee

Richard Smith, Chair
Thomas Galle
Kevin O'Meara

IV. REINSURANCE

The company's reinsurance portfolio and strategy at the time of the examination 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 has a ceding reinsurance contract agreement with Mutual Reinsurance Bureau (MRB), an unincorporated reinsurance association. MRB is composed of five member companies; each company automatically assumes equal risk, and the five member companies are jointly liable. The current MRB members are:

Church Mutual Insurance Company
Renaissance Reinsurance U.S. Inc.
Farm Bureau Mutual Insurance Company of Michigan
Kentucky Farm Bureau Mutual Insurance Company
Motorists Mutual Insurance Company

Nonaffiliated Ceding Contracts

1. Type: Quota Share
Reinsurer: General Reinsurance Corporation
Scope: Data Response and Cyber Liability
Retention: \$2,500
Coverage: \$100,000
Commissions: 20%
Effective date: March 1, 2017
Termination: The contract will remain in effect until terminated by either party.

2. Type: Quota Share
Reinsurer: General Reinsurance Corporation
Scope: Employment Practices
Retention: \$30,000
Coverage: \$100,000
Commissions: 25%
Effective date: October 1, 2010

- Termination: The contract will remain in effect until terminated by either party.
3. Type: Quota Share
- Reinsurer: Factory Mutual Insurance Company
- Scope: Equipment Breakdown on all Commercial Policies
- Retention: No Retention
- Coverage: \$25,000,000
- Commissions: 40%
- Effective date: January 1, 2006
- Termination: The contract will remain in effect until terminated by either party.
4. Type: Quota Share
- Reinsurers: Aspen Insurance UK Limited (2.0%)
 Berkley Insurance Company (15.0%)
 Endurance Assurance Corporation (5.0%)
 Hannover Ruck SE (10.0%)
 Market Global Reinsurance Company (9.0%)
 Partner Reinsurance Company of US (2.5%)
 Swiss Reinsurance Insurance Company (43.0%)
 TOA Reinsurance Insurance Company (13.5%)
- Scope: Personal Umbrella
 Commercial Umbrella
 Farm Umbrella
- Retention: 5% of first \$1,000,000
- Coverage: \$4,000,000
- Commissions: 33%
- Effective date: January 1, 2021
- Termination: December 31, 2021
5. Type: Excess of Loss
- Reinsurers: Catlin Insurance Company (50%)
 Everest Reinsurance Company (50%)
- Scope: Commercial
 Homeowners (covered only through Catlin Insurance Company)
 Farmowners
 Lumber

- Retention: \$1,000,000
- Coverage: \$2,000,000
- Commissions: None
- Effective date: March 1, 2003
- Termination: The contract will remain in effect until terminated by either party.
6. Type: Excess of Loss
- Reinsurer: General Reinsurance Corporation
- Scope: All property with the exception of Auto
- Retention: \$300,000
- Coverage: \$300,000/\$500,000/\$1,000,000 per risk
\$600,000/\$1,500,000/\$2,000,000 per occurrence
- Commissions: None
- Effective date: January 1, 2021
- Termination: The contract will remain in effect until terminated by either party.
7. Type: Excess of Loss
- Reinsurers: General Reinsurance Corporation (1st Layer)
Safety National Casualty Corporation (2nd Layer 60%)
Waypoint Underwriting Management (2nd Layer 40%)
- Scope: Worker's Compensation
Employers Liability
Medical Payments
All Casualty Business
- Retention: \$250,000 (1st Layer)
\$2,000,000 (2nd Layer)
- Coverage: \$250,000/\$500,000/\$1,000,000 (1st Layer)
\$6,000,000 (2nd Layer)
- Commissions: None
- Effective date: January 1, 2021
- Termination: The first layer will remain in effect until terminated by either party. The second layer will terminate on December 31, 2021.
8. Type: Catastrophe

| | |
|-----------------|---|
| Reinsurers: | <p>1st Layer: Allied World (15%) American Agriculture (9%) AXIS Reinsurance Company (12%) Dual Commercial LLC (3%) Employers Mutual (5%) R+V Versicherung AG (29%) Shelter Mutual (4%) Swiss Re America Corporation (15%) Taiping Re (3%) Lloyds (5%)</p> <p>2nd Layer: Allied World (15%) American Agriculture (4.5%) AXIS Reinsurance Company (12%) Dual Commercial LLC (3%) Employers Mutual (5%) R+V Versicherung AG (29%) Shelter Mutual (7.5%) Swiss Re America Corporation (15.0%) Taiping Re (4%) Lloyds (5%)</p> <p>3rd Layer: Mutual Reinsurance Bureau (100%)</p> |
| Scope: | 100% Earned Property 65% Multi-Peril 40.7% Auto Physical Damage |
| Retention: | \$2,000,000 (1 st Layer) \$4,000,000 (2 nd Layer) \$18,000,000 (3 rd Layer) |
| Coverage: | \$2,000,000 per occurrence, \$4,000,000 Term Limit (1 st Layer) \$14,000,000 per occurrence, \$28,000,000 Term Limit (2 nd Layer) \$14,000,000 per occurrence, \$28,000,000 Term Limit (3 rd Layer) |
| Commissions: | None |
| Effective date: | January 1, 2021 |
| Termination: | January 1, 2022 |

V. 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 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.

Germantown Mutual Insurance Company
Assets
As of December 31, 2019

| | Assets | Nonadmitted Assets | Net Admitted Assets |
|---|----------------------|-------------------------------|------------------------------------|
| Bonds | \$ 98,958,376 | \$ | \$ 98,958,376 |
| Stocks: | | | |
| Common stocks | 14,026,961 | | 14,026,961 |
| Real estate: | | | |
| Occupied by the company | 1,161,747 | | 1,161,747 |
| Properties held for the production of income | 558,167 | | 558,167 |
| Cash, cash equivalents, and short-term investments | 5,484,747 | | 5,484,747 |
| Other invested assets | 233,200 | 233,200 | |
| Write-ins for invested assets: | | | |
| Agency notes receivable | 157,280 | 157,280 | |
| Investment income due and accrued | 1,176,121 | | 1,176,121 |
| Premiums and considerations: | | | |
| Uncollected premiums and agents' balances in course of collection | 604,011 | | 604,011 |
| Deferred premiums, agents' balances, and installments booked but deferred and not yet due | 9,814,070 | | 9,814,070 |
| Reinsurance: | | | |
| Amounts recoverable from reinsurers | 180,731 | | 180,731 |
| Current federal and foreign income tax recoverable and interest thereon | 169,754 | | 169,754 |
| Net deferred tax asset | 1,011,138 | 95,144 | 915,994 |
| Electronic data processing equipment and software | 22,515 | | 22,515 |
| Furniture and equipment, including health care delivery assets | 221,721 | 221,721 | |
| Write-ins for other than invested assets: | | | |
| Miscellaneous | 49,361 | | 49,361 |
| Total Assets | <u>\$133,829,900</u> | <u>\$707,345</u> | <u>\$133,122,555</u> |

Germantown Mutual Insurance Company
Liabilities, Surplus, and Other Funds
As of December 31, 2019

| | | |
|--|-------------------------|--------------------------|
| Losses | | \$23,554,798 |
| Loss adjustment expenses | | 4,499,276 |
| Commissions payable, contingent commissions, and other similar charges | | 1,458,508 |
| Other expenses (excluding taxes, licenses, and fees) | | 4,201,160 |
| Taxes, licenses, and fees (excluding federal and foreign income taxes) | | 57,333 |
| Unearned premiums | | 26,595,339 |
| Advance premium | | 881,604 |
| Ceded reinsurance premiums payable (net of ceding commissions) | | 474,703 |
| Funds held by company under reinsurance treaties | | <u>93,314</u> |
| Total Liabilities | | 61,816,035 |
| Unassigned funds (surplus) | <u>\$71,306,520</u> | |
| Surplus as Regards Policyholders | | <u>71,306,520</u> |
| Total Liabilities and Surplus | | <u>\$133,122,555</u> |

Germantown Mutual Insurance Company
Summary of Operations
For the Year 2019

| | | |
|---|-------------------|---------------------|
| Underwriting Income | | |
| Premiums earned | | \$54,793,507 |
| Deductions: | | |
| Losses incurred | \$34,386,762 | |
| Loss adjustment expenses incurred | 3,559,154 | |
| Other underwriting expenses incurred | <u>16,142,456</u> | |
| Total underwriting deductions | | <u>54,088,372</u> |
| Net underwriting gain (loss) | | 705,135 |
| Investment Income | | |
| Net investment income earned | 3,531,107 | |
| Net realized capital gains (losses) | <u>160,010</u> | |
| Net investment gain (loss) | | 3,691,117 |
| Other Income | | |
| Net gain (loss) from agents' or premium balances charged off | (47,349) | |
| Finance and service charges not included in premiums | 143,121 | |
| Write-ins for miscellaneous income: | | |
| Miscellaneous income | <u>20,452</u> | |
| Total other income | | <u>116,224</u> |
| Net income (loss) before dividends to policyholders and before federal and foreign income taxes | | 4,512,476 |
| Net income (loss) after dividends to policyholders but before federal and foreign income taxes | | 4,512,476 |
| Federal and foreign income taxes incurred | | <u>667,975</u> |
| Net Income (Loss) | | <u>\$ 3,844,501</u> |

Germantown Mutual Insurance Company
Cash Flow
For the Year 2019

| | | |
|--|------------------|--------------------|
| Premiums collected net of reinsurance | | \$55,997,737 |
| Net investment income | | 6,017,218 |
| Miscellaneous income | | <u>116,227</u> |
| Total | | 62,131,182 |
| Benefit- and loss-related payments | \$34,783,581 | |
| Commissions, expenses paid, and aggregate write-ins for deductions | 16,194,621 | |
| Federal and foreign income taxes paid (recovered) | <u>385,194</u> | |
| Total deductions | | <u>51,363,396</u> |
| Net cash from operations | | 10,767,786 |
| | | |
| Proceeds from investments sold, matured, or repaid: | | |
| Bonds | \$14,065,968 | |
| Stocks | <u>1,253,970</u> | |
| Total investment proceeds | | 15,319,938 |
| Cost of investments acquired (long- term only): | | |
| Bonds | 23,945,626 | |
| Stocks | 1,450,184 | |
| Real estate | <u>97,776</u> | |
| Total investments acquired | | <u>25,493,586</u> |
| Net cash from investments | | (10,173,648) |
| | | |
| Cash from financing and miscellaneous sources: | | |
| Other cash provided (applied) | <u>(8,868)</u> | |
| Net cash from financing and miscellaneous sources | | (8,868) |
| | | |
| Reconciliation: | | |
| Net Change in Cash, Cash Equivalents, and Short-Term Investments | | 585,270 |
| Cash, cash equivalents, and short-term investments: | | |
| Beginning of year | | <u>4,899,476</u> |
| End of Year | | <u>\$5,484,747</u> |

**Germantown Mutual Insurance Company
Compulsory and Security Surplus Calculation
December 31, 2019**

| | | |
|--|--------------|----------------------|
| Assets | | \$133,122,555 |
| Less liabilities | | <u>61,816,035</u> |
| Adjusted surplus | | 71,306,520 |
| Annual premium: | | |
| Lines other than accident and health | \$57,184,884 | |
| Factor | <u>20%</u> | |
| Compulsory surplus (subject to a minimum of \$2 million) | | <u>11,436,976</u> |
| Compulsory Surplus Excess (Deficit) | | <u>\$ 59,869,544</u> |
| Adjusted surplus (from above) | | \$ 71,306,520 |
| 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%) | | <u>15,897,396</u> |
| Security Surplus Excess (Deficit) | | <u>\$ 55,409,124</u> |

**Germantown Mutual Insurance Company
Analysis of Surplus
For the Five-Year Period Ending December 31, 2019**

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

| | 2019 | 2018 | 2017 | 2016 | 2015 |
|---|---------------------|---------------------|---------------------|---------------------|---------------------|
| Surplus, beginning of year | \$65,622,362 | \$61,740,342 | \$56,732,109 | \$50,172,032 | \$43,723,141 |
| Net income | 3,844,501 | 4,280,410 | 4,557,344 | 5,639,698 | 6,351,971 |
| Change in net unrealized capital gains/losses | 1,750,727 | (549,470) | 1,248,255 | 638,508 | (580,739) |
| Change in net deferred income tax | (16,472) | 179,214 | (891,801) | (262,304) | 219,399 |
| Change in nonadmitted assets | 105,402 | (28,134) | 94,435 | 544,175 | 460,433 |
| Write-ins for gains and (losses) in surplus: Other | _____ | _____ | _____ | _____ | (2,173) |
| Surplus, End of Year | <u>\$71,306,520</u> | <u>\$65,622,362</u> | <u>\$61,740,342</u> | <u>\$56,732,109</u> | <u>\$50,172,032</u> |

**Germantown Mutual Insurance Company
Insurance Regulatory Information System
For the Five-Year Period Ending December 31, 2019**

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 | 2019 | 2018 | 2017 | 2016 | 2015 |
|---|------|------|------|------|------|
| #1 Gross Premium to Surplus | 89% | 89% | 87% | 91% | 100% |
| #2 Net Premium to Surplus | 79 | 81 | 78 | 83 | 91 |
| #3 Change in Net Premiums Written | 6 | 11 | 2 | 2 | 6 |
| #4 Surplus Aid to Surplus | 0 | 0 | 0 | 0 | 0 |
| #5 Two-Year Overall Operating Ratio | 90 | 87 | 85 | 80 | 87 |
| #6 Investment Yield | 3.1 | 3.1 | 3.0* | 3.1 | 3.0* |
| #7 Gross Change in Surplus | 9 | 6 | 9 | 13 | 15 |
| #8 Change in Adjusted Surplus | 9 | 6 | 9 | 13 | 15 |
| #9 Liabilities to Liquid Assets | 43 | 44 | 43 | 46 | 50 |
| #10 Agents' Balances to Surplus | 1 | 1 | 1 | 1 | 1 |
| #11 One-Year Reserve Development to Surplus | -6 | -3 | -12 | -7 | -6 |
| #12 Two-Year Reserve Development to Surplus | -6 | -10 | -12 | -8 | -2 |
| #13 Estimated Current Reserve Deficiency to Surplus | -10 | -8 | -5 | -2 | -4 |

The company had exceptional results for Ratio #6, "Investment Yield" for the years 2015 and 2017. These exceptions were due to the low interest rate environment for the bond market.

Growth of Germantown Mutual Insurance Company

| Year | Admitted Assets | Liabilities | Surplus as Regards Policyholders | Net Income |
|------|-----------------|--------------|----------------------------------|-------------|
| 2019 | \$133,122,555 | \$61,816,035 | \$71,306,520 | \$3,844,501 |
| 2018 | 122,727,374 | 57,105,011 | 65,622,363 | 4,280,410 |
| 2017 | 113,033,993 | 51,293,651 | 61,740,342 | 4,557,344 |
| 2016 | 108,526,226 | 51,794,117 | 56,732,109 | 5,639,698 |
| 2015 | 102,196,795 | 52,024,763 | 50,172,032 | 6,351,971 |
| 2014 | 94,105,748 | 50,382,607 | 43,723,141 | 1,961,252 |

| Year | Gross Premium Written | Net Premium Written | Premium Earned | Loss and LAE Ratio | Expense Ratio | Combined Ratio |
|------|-----------------------|---------------------|----------------|--------------------|---------------|----------------|
| 2019 | \$63,194,473 | \$56,395,884 | \$54,793,507 | 69.3% | 28.4% | 97.7% |
| 2018 | 58,659,747 | 53,089,687 | 51,284,303 | 65.1 | 29.9 | 95.0 |
| 2017 | 53,756,143 | 47,930,380 | 47,076,425 | 61.1 | 30.7 | 91.8 |
| 2016 | 51,638,355 | 46,809,071 | 46,382,569 | 58.2 | 30.4 | 88.6 |
| 2015 | 50,411,988 | 45,709,704 | 44,849,564 | 54.0 | 30.0 | 84.0 |
| 2014 | 48,592,678 | 43,070,866 | 41,678,338 | 74.8 | 29.0 | 103.8 |

Germantown Mutual Insurance Company is a medium-sized mutual insurer whose operations are focused predominantly in Wisconsin, although the company's writings in Utah are expanding. The company has continued to have methodical growth through the period under examination despite a decline in net income from 2015 through 2019. The decline in net income during this period is due in part to two catastrophic weather related occurrences that happened in 2017 and 2019, along with a combination of soft market conditions, increased pricing pressures, changes in reinsurance retentions, and reinsurance repurchases.

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, 2019, is accepted.

VI. SUMMARY OF EXAMINATION RESULTS

Compliance with Prior Examination Report Recommendations

There were four specific comments and recommendations in the previous examination report. Comments and recommendations contained in the last examination report and actions taken by the company are as follows:

1. Information Technology Controls—It is recommended that the company continue to implement the IT controls and documentation as noted in the third party's IT report.

Action—Compliance.

2. Conflict of Interest Disclosures—It is recommended that each of the company's officers, directors, and key employees annually make a conflict of interest disclosure to the company and that the company retain the disclosures in the company's records from examination to examination, in compliance with the directive of the Commissioner of Insurance.

Action—Compliance.

3. Custodial Agreement—It is recommended that the company amend its custodial agreement to include specific language prescribed in the *NAIC Financial Condition Examiners Handbook*.

Action—Compliance

4. Investment Policy—It is recommended the company update its investment policy to provide better direction and guidance for the management of its investment holdings.

Action—Compliance

Summary of Current Examination Results

Information Technology

During the course of examination, a review was made of the company's general controls over its information systems. The review resulted in certain findings, which were presented in a letter to management dated February 5, 2021. It is recommended that the company strengthen its information system controls in accordance with the recommendations made in the letter to management dated February 5, 2021.

VII. CONCLUSION

Germantown Mutual Insurance Company is a medium-sized mutual insurer whose operations are focused predominantly in Wisconsin, albeit with growing premium volume in Utah. Due to its geographical concentration, the company is vulnerable to severe weather related events; however, the company has been able to mitigate this risk fairly successfully through its reinsurance program.

The company has continued to have methodical growth through the period under examination despite a decline in net income from 2015 through 2019. The decline in net income during this period is due in part to two catastrophic weather related occurrences that happened in 2017 and 2019, along with a combination of soft market conditions, increased pricing pressures, changes in reinsurance retentions, and reinsurance repurchases.

VIII. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 20 - Information Technology—It is recommended that the company strengthen its information system controls in accordance with the recommendations made in the letter to management dated February 5, 2021.

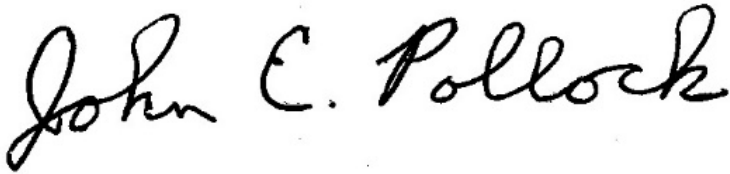
IX. ACKNOWLEDGMENT

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 |
|-------------------|------------------------------|
| Kenton Harrison | Insurance Financial Examiner |
| Kongmeng Yang | Insurance Financial Examiner |
| David Jensen, CFE | IT Specialist |
| Karl Albert, CFE | Quality Control Specialist |

Respectfully submitted,



John E. Pollock
Examiner-in-Charge

X. SUBSEQUENT EVENTS

On March 11, 2020, the World Health Organization declared the coronavirus disease (COVID-19) a pandemic. As of the date of this report, there is still significant uncertainty on the effect that the pandemic will have on the insurance industry, economy, and society at large. The examination's review of the impact to Germantown Mutual Insurance Company through January 2021 noted that there has not been a significant impact to the company overall; however, due to 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 will continue to monitor how the pandemic might impact the company.