

Report of the Examination of
JM Specialty 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:

JM SPECIALTY INSURANCE COMPANY
Neenah, Wisconsin

and this report is respectfully submitted.

I. INTRODUCTION

This is the first examination of JM Specialty Insurance Company (the company or JMSI) since its incorporation on January 3, 2017. 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, Jewelers Mutual Insurance Company (JMIC), 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.

JMSI is exempt from the audited financial statement filing requirements of s. Ins 50.05, Wis. Adm. Code for the year ending December 31, 2018. JMIC received a permitted practice to admit unaudited investments in JMSI within its financial statements. Annually, an independent public accounting firm performs confirmation procedures over JMSI invested assets, and an integral part of this compliance examination was the review of the independent accountant's confirmation procedures.

Independent Actuary's Review

For the examinations of JMIC and JMSI, an independent actuarial firm was engaged under a contract with the Office of the Commissioner of Insurance. The actuary reviewed the adequacy of JMIC's loss and loss adjustment expense reserves. The actuary's results were reported to the examiner-in-charge.

II. HISTORY AND PLAN OF OPERATION

The company was incorporated on January 3, 2017, as a stock property and casualty insurance subsidiary of Jewelers Mutual Insurance Company and received its Wisconsin certificate of authority on February 22, 2017. JMIC is a mutual property and casualty insurer which was incorporated in March 1913 and commenced business in June 1914. JMIC 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 largest line, inland marine, includes both personal and commercial products. The major products are marketed through approximately 750 independent agents and through direct marketing. Personal jewelry coverage is written on a direct basis through web-based sites or from the JMIC call center, or through affiliation relationship with other companies and through other company programs or marketing relationships. JM Specialty Insurance Company was licensed as an insurance company by the Wisconsin Office of the Commissioner of Insurance (OCI) in February 2017. JMSI was created to benefit JMIC by providing flexibility to introduce new products targeted to meet the unique needs of new potential customers. JMSI cedes 100% of its exposure to JMIC pursuant to a 100% quota share agreement. JMSI is directly owned by JM Holdings, Inc., and indirectly by JMIC.

JMSI did not write any direct premium in 2017 or 2018. JMSI is licensed in Wisconsin; it applied for licenses in all 50 states and the District of Columbia. JMSI is currently licensed in 47 states and the District of Columbia, excluding Alaska, California and Nevada.

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
- Investment Committee Chair – \$7,500
- Audit Committee Vice Chair – \$6,000
- Investment 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
Sherry Manetta Avon, Connecticut	Managing Director Glenwood Strategies, LLC	2020
Marianne Marck Bainbridge Island, Washington	Chief Information Officer Ritchie Bros. Auctioneers	2020

Name and Residence	Principal Occupation	Term Expires
David Scott Murphy Menasha, Wisconsin	President and CEO Jewelers Mutual Insurance Company	2019
Robert Reeg St. Louis, Missouri	Principal Owner RWRReeg 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 Cincinnati 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

*Total compensation from JMSI and JMIC.

** John Cowden was Chief Financial Officer of JMIC until June of 2019.

***Victoria Lindamood was Chief Human Resources Officer of JMIC until September of 2018.

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:

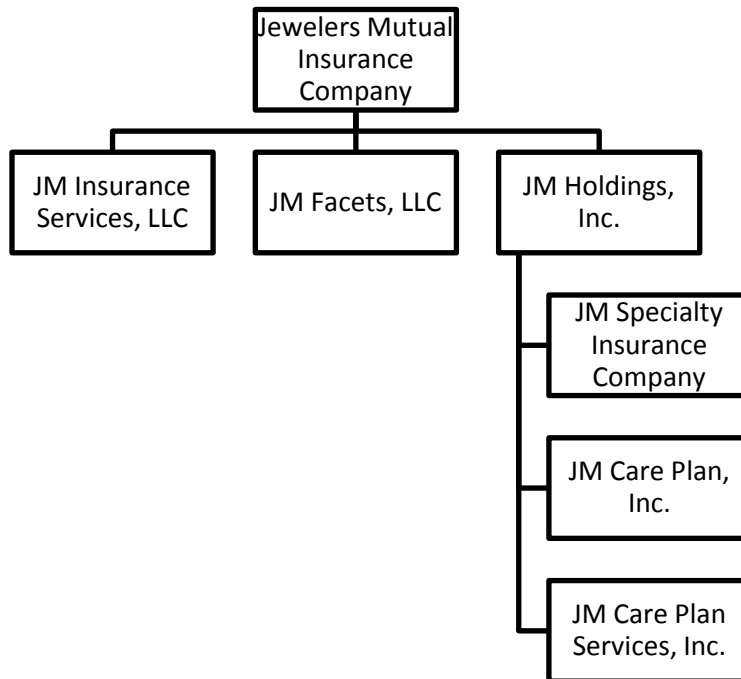
Audit Committee

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

IV. AFFILIATED COMPANIES

JMSI is a member of a holding company system. 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**



Jewellers Mutual Insurance Company

JMIC is an insurance company which was formed in 1913 to provide commercial and personal insurance coverage for the jewelry industry. As of December 31, 2018, the audited financial statements of JMIC reported assets of \$463,994,140, liabilities of \$168,815,733, and surplus as regards policyholders of \$295,178,407. Operations for 2018 produced net income of \$34,997,695.

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: JM Specialty Insurance Company (JMSI), JM Care Plan, Inc. (Care Plan), and JM Care Plan Services, Inc. (Care Plan Services). 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 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 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.

Management Agreements

Effective June 1, 2016, JMIC entered into separate management agreements with its subsidiaries, JMIS, Holdings, and Care Plan. JMIC 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, JMIC 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 company's subsidiary's date of organization or incorporation, whichever came later, JMIC 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, "Reinsurance," of the report.

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.

Ceding Contracts

Affiliated Ceding Contracts

1. Type:	Quota Share
Reinsurer:	JMIC
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 cancelations, 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.

JM Specialty Insurance Company
Assets
As of December 31, 2018

	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	\$14,682,334	\$	\$14,682,334
Cash, cash equivalents, and short-term investments	111,035		111,035
Investment income due and accrued	95,942		95,942
Net deferred tax asset	383,246	221,829	161,417
Furniture and equipment, including health care delivery assets	<u>1,856,355</u>	<u>1,856,355</u>	<u> </u>
Total Assets	<u>\$17,128,911</u>	<u>\$2,078,184</u>	<u>\$15,050,727</u>

JM Specialty Insurance Company
Liabilities, Surplus, and Other Funds
As of December 31, 2018

Other expenses (excluding taxes, licenses, and fees)	\$	100
Current federal and foreign income taxes		117,092
Payable to parent, subsidiaries, and affiliates		<u>33,357</u>
Total Liabilities		150,548
Common capital stock	\$ 3,500,000	
Gross paid in and contributed surplus	12,534,525	
Unassigned funds (surplus)	<u>(1,134,346)</u>	
Surplus as Regards Policyholders		<u>14,900,179</u>
Total Liabilities and Surplus		<u>\$15,050,727</u>

**JM Specialty Insurance Company
Summary of Operations
For the Year 2018**

Investment Income

Net investment income earned	\$307,948	
Net realized capital gains (losses)	<u>223,221</u>	
Net investment gain (loss)		\$531,169

Other Income

Write-ins for miscellaneous income:		
Miscellaneous income		<u>8</u>

Net income (loss) after dividends to policyholders but before federal and foreign income taxes		531,177
Federal and foreign income taxes incurred		<u>57,755</u>

Net Income		<u>\$473,422</u>
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JM Specialty Insurance Company
Cash Flow
For the Year 2018

Net investment income		\$300,552
Miscellaneous income		<u>8</u>
Total		300,560
Commissions, expenses paid, and aggregate write-ins for deductions	\$ 43,406	
Federal and foreign income taxes paid (recovered)	<u>46,939</u>	
Total deductions		<u>90,345</u>
Net cash from operations		210,215
 Proceeds from investments sold, matured, or repaid:		
Bonds	8,081,893	
Cost of investments acquired (long-term only):		
Bonds	<u>8,354,851</u>	
Net cash from investments		(272,958)
 Capital and paid in surplus less treasury stock	54,974	
Other cash provided (applied)	<u>23,189</u>	
Net cash from financing and miscellaneous sources		<u>78,163</u>
 Reconciliation:		
Net Change in Cash, Cash Equivalents, and Short-Term Investments		15,420
Cash, cash equivalents, and short-term investments:		
Beginning of year		<u>95,615</u>
End of Year		<u>\$111,035</u>

**JM Specialty Insurance Company
Compulsory and Security Surplus Calculation
December 31, 2018**

Assets		\$15,050,727
Less security surplus of insurance subsidiaries		0
Less liabilities		<u>150,548</u>
Adjusted surplus		14,900,179
Annual premium:		
Lines other than accident and health	\$ 0	
Factor	<u>20%</u>	
Compulsory surplus (subject to a minimum of \$2 million)		<u>2,000,000</u>
Compulsory Surplus Excess (Deficit)		<u>\$12,900,179</u>
Adjusted surplus (from above)		\$14,900,179
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>2,800,000</u>
Security Surplus Excess (Deficit)		<u>\$12,100,179</u>

JM Specialty Insurance Company
Analysis of Surplus
For the Two-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
Surplus, beginning of year	\$13,858,356	\$
Net income	473,422	87,170
Change in net unrealized capital gains/losses	(125,196)	(34,824)
Change in net deferred income tax	543,265	
Change in nonadmitted assets	(528,825)	(1,549,359)
Capital changes:		
Paid in		3,500,000
Surplus adjustments:		
Paid in	<u>679,157</u>	<u>11,855,369</u>
Surplus, End of Year	<u>\$14,900,179</u>	<u>\$13,858,356</u>

JM Specialty Insurance Company
Insurance Regulatory Information System
For the Two-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
#1 Gross Premium to Surplus	0%	0%
#2 Net Premium to Surplus	0	0
#3 Change in Net Premiums Written	0	0
#4 Surplus Aid to Surplus	0	0
#5 Two-Year Overall Operating Ratio	0	0
#6 Investment Yield	2.1	1.9*
#7 Gross Change in Surplus	8	999*
#8 Change in Adjusted Surplus	3	999*
#9 Liabilities to Liquid Assets	1	4
#10 Agents' Balances to Surplus	0	0
#11 One-Year Reserve Development to Surplus	0	0
#12 Two-Year Reserve Development to Surplus	0	0
#13 Estimated Current Reserve Deficiency to Surplus	0	0

Ratio No. 6, Investment Yield, measures the profitability and 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 lower yields that were available in the fixed income markets.

Ratio No. 7, Gross Change in Surplus, was considered exceptional in 2017. The stated ratio is a result of JMSI becoming a new entity during 2017.

Ratio No. 8, Net Change in Adjusted Surplus, was also exceptional in 2017 for the same reasons as Ratio No. 7.

Growth of JM Specialty Insurance Company

Year	Admitted Assets	Liabilities	Surplus as Regards Policyholders	Net Income
2018	\$15,050,727	\$150,548	\$14,900,179	\$473,422
2017	14,469,454	611,098	13,858,356	87,170

Year	Gross Premium Written	Net Premium Written	Premium Earned	Loss and LAE Ratio	Expense Ratio	Combined Ratio
2018	\$0	\$0	\$0	0.0%	0.0%	0.0%
2017	0	0	0	0.0	0.0	0.0

Over the examination period of two years, the company reported a 4.0% increase in assets and a 75.4% decrease in liabilities. Surplus increased 7.5% primarily due to investing activities and a decrease in liabilities. In 2017 and 2018, JMSI did not write any direct premium. Investing activities were the only source of income.

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

This is the first examination of JM Specialty Insurance Company.

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.

Executive Compensation

The State of Wisconsin requires that each Wisconsin-domiciled insurer file a supplement to the annual statement titled "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

On January 3, 2017, JMIC formed a new property and casualty stock insurance subsidiary, JMSI, as a new addition to the affiliated companies of JMIC, which is the ultimate parent of JMSI's holding company system. JM Specialty Insurance Company was licensed as an insurer by the Wisconsin Office of the Commissioner of Insurance on February 22, 2017. JMIC 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. JMSI was created to benefit JMIC by providing flexibility to introduce new products targeted to meet the unique needs of new potential customers.

In 2017 and 2018, JMSI did not write any direct premium. Investing activities were the only source of income. Over the examination period of two years, surplus increased 7.5% primarily due to investing activities and a decrease in liabilities.

This is the first examination of JM Specialty Insurance Company. No adjustments were made to surplus as a result of the examination and the current examination resulted in one recommendation, related to reporting of executive compensation.

IX. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 18 - 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.

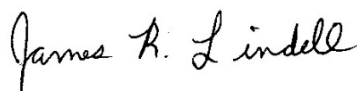
X. ACKNOWLEDGMENT

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
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
Jerry DeArmond, CFE	Reserve Specialist

Respectfully submitted,



James Lindell
Examiner-in-Charge

XI. SUBSEQUENT EVENTS

On September 12, 2019 at the Special Policyholder Meeting JMIC's policyholders approved the 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.