

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

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November 2, 2020

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

Commissioner:

In accordance with your instructions, an examination has been performed as of
December 31, 2019, of the affairs and financial condition of:

NORTHEASTERN MUTUAL INSURANCE COMPANY
Algoma, Wisconsin

and the following report thereon is respectfully submitted:

I. INTRODUCTION

The previous examination of Northeastern Mutual Insurance Company (the company) was made in 2012 as of December 31, 2011. The current examination covered the five-year period beginning January 1, 2015, and ending December 31, 2019, and included a review of such subsequent transactions deemed essential to complete this examination.

The “Summary of Examination Results” contains elaboration on all areas of the company's operations. Special attention was given to the action taken by the company to satisfy the recommendations and comments made in the previous examination report.

The company 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.

In addition to auditing, the public accounting firm performs non-auditing services for the company, including a compilation engagement covering preparation of adjusting journal entries, statutory financial statements, and annual report to the policyholders. On December 13, 2010, an exemption was granted by the Commissioner, pursuant to s. Ins 50.08 (5), Wis. Adm. Code, permitting the independent auditor to perform this non-audit work for the company.

The company was organized as a town mutual insurance company on November 21, 1874, under the provisions of the then existing Wisconsin Statutes. The original name of the company was the German Mutual Farmers' 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 were no amendments to the articles of incorporation and no amendments to the bylaws.

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:

Brown	Door
Kewaunee	Manitowoc

A review was made of the policy and application forms currently used by the company. The company issues approved policies with or without endorsements for terms of one year with premiums payable on the advance premium basis. The company also charges a policy fee for policyholders who make installment premium payments. The company charges a fee of \$4 per year for semiannual premium payments. The company charges a fee of \$8 per year for quarterly premium payments. In addition, the company charges an annual policy fee of \$4 and a \$2 policy fee when a policyholder makes a change to their coverage during the year.

Business of the company is acquired through 32 agents, one of whom is a director of the company. Agents are presently compensated for their services as follows:

Type of Policy	Compensation
All types of property - only fire premium	10%
All commercial or public - fire and extended coverage	12
All types except commercial or public - fire and extended coverage	15

In addition, agents receive a policy fee of \$4 per policy and \$2 per endorsement to an existing policy.

Agents have no authority to adjust losses. Losses are adjusted by an outside adjuster contracted by the company, the company's Secretary/Treasurer, and board members on the adjusting committee. Outside contracted adjusters are compensated based on their contracted rates.

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

Name and Residence	Principal Occupation	Term Expires
Kenneth Draves Algoma, Wisconsin	Farmer	2021
Jeffrey Perlewitz Algoma, Wisconsin	Retired School Custodian	2021
Sylvan Konkel Algoma, Wisconsin	Retired Bank Loan Officer	2022
Michael Salzsieder Algoma, Wisconsin	City Parks and Recreation Department	2022
Kenneth Karnitz* Algoma, Wisconsin	Secretary/Treasurer of Northeastern Mutual Insurance Company	2023
Allen Jorgensen Luxemburg, Wisconsin	Retired Supervisor	2023
Todd Jorgensen Luxemburg, Wisconsin	Project Manager	2023

Members of the board currently receive \$125 for each half-day meeting attended and \$150 for each full-day meeting and \$0.50 per 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 office for one year or until their successors are duly elected and qualified. Officers serving at the present time are as follows:

Name	Office
Kenneth Draves	President
Jeffrey Perlewitz	Vice President
Kenneth Karnitz	Secretary/Treasurer

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:

Adjusting Committee

Kenneth Karnitz, Chair
Kenneth Draves
Jeffrey Perlewitz
Michael Salzsieder

Investment/Finance Committee

Kenneth Karnitz, Chair
Kenneth Draves
Todd Jorgensen
Sylvan Konkel
Jeffrey Perlewitz

Growth of Company

The growth of the company during the examination period, as compiled from its filed annual statements, was as follows:

Year	Net Premiums Earned	Policies In Force	Net Income	Admitted Assets	Policyholders' Surplus
2019	\$588,869	1,469	\$132,507	\$3,832,241	\$3,325,905
2018	590,066	1,489	99,859	3,688,443	3,175,131
2017	562,036	1,496	163,502	3,630,397	3,067,371
2016	551,560	1,481	155,581	3,259,551	2,776,304
2015	538,030	1,478	27,615	2,970,783	2,468,479
2014	502,742	1,454	95,427	2,934,646	2,404,497

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

Year	Gross Premiums Written	Net Premiums Written	Policyholders' Surplus	Writings Net	Ratios Gross
2019	\$1,151,113	\$590,173	\$3,325,905	17.7%	34.6%
2018	1,119,173	587,600	3,175,131	18.5	35.2
2017	1,120,176	583,260	3,067,371	19.0	36.5
2016	1,083,144	550,409	2,776,304	19.8	39.0
2015	1,069,394	555,363	2,468,479	22.5	43.3
2014	1,016,419	535,804	2,404,497	22.3	42.3

For the same period, the company's operating ratios were as follows:

Year	Net Losses and LAE Incurred	Other Underwriting Expenses Incurred	Net Premiums Earned	Loss Ratio	Expense Ratio	Composite Ratio
2019	\$230,844	\$261,739	\$588,869	39.2%	44.3%	83.6%
2018	267,858	258,415	590,066	45.4	44.0	89.4
2017	172,386	261,912	562,036	30.7	44.9	75.6
2016	171,346	269,094	551,560	31.1	48.9	80.0
2015	275,483	264,755	538,030	51.2	47.7	98.9
2014	177,373	264,336	502,742	35.3	49.3	84.6

The company reported net underwriting gain in four and net income in each of the five years under examination. During the period under examination, the company's surplus increased by 38.3%. The significant increases in policyholders' surplus in 2016 and 2017 were due to net income and significant increases in unrealized gain for investments. Policies in force increased slightly for the first three years followed by slight decreases for two years, resulting in a net gain of 1.0% in policies in force

over the five-year period. Gross premiums written and net premiums written increased by 13.3% and 10.1%, respectively, over the five-year period. The increase in premiums written was a result of rate increases.

II. REINSURANCE

The examiners' review of the company's reinsurance portfolio revealed there is currently one ceding treaty with six coverage sections. The treaty contained a proper insolvency clause and complied with s. Ins 13.09 (3), Wis. Adm. Code, concerning maximum wind loss. Company retentions of risk complied with s. Ins 13.06, Wis. Adm. Code.

Reinsurer:	Wisconsin Reinsurance Corporation
Effective date:	January 1, 2020
Termination provisions:	Either party may terminate this Contract of Reinsurance as of 12:01 a.m. Central Standard Time on any January 1 by giving to the other party at least 90 days' advance notice in writing.

The coverages provided under this treaty are summarized as follows:

- | | |
|----------------------|---|
| Type of contract: | Class A – Casualty Excess of Loss Reinsurance |
| Lines reinsured: | All business written by the company classified as casualty or liability business |
| Company's retention: | \$1,500 each and every loss occurrence including loss adjustment expenses |
| Coverage: | 100% in excess of the retention subject to the following limits: <ol style="list-style-type: none">\$1,000,000 per occurrence, single limit, combined injury and property damage liability\$1,000,000 split limits, in any combination of bodily injury and property damage liability\$25,000 for medical payments, per person\$25,000 medical payments, per accident for personal lines |
| Reinsurance premium: | 66.67% of net premium. Annual deposit premium of \$136,706 |
| Ceding commission: | None |
- | | |
|----------------------|--|
| Type of contract: | Class B – First Surplus Reinsurance |
| Lines reinsured: | All business written by the company classified as property business |
| Company's retention: | First surplus retention is \$250,000. The company may cede on a pro rata basis (in excess of retention) up to \$2,000,000. In addition, any location which is in excess of \$2,500,000 property coverage may be submitted to the reinsurer for special acceptance. The reinsurer may accept or reject each such risk submitted |
| Coverage: | Pro rata portion of every loss, including loss adjustment expense, corresponding to the amount of risk ceded |

Reinsurance premium:	Pro rata portion of all premiums, fees and assessments charged by the company corresponding to the amount of each risk ceded hereunder. Annual deposit premium of \$300,563
Ceding commission:	15% of the premium ceded and 15% profit commission based on the reinsurer's net profit on business reinsured under this contract
3. Type of contract:	Class C1 – First Per Risk Excess of Loss Layer
Lines reinsured:	All business written by the company classified as property business
Company's retention:	\$55,000 per risk per loss occurrence
Coverage:	100% of each and every loss, including loss adjustment expense, in excess of company's retention up to a maximum \$75,000
Reinsurance premium:	9.5% of the company's net premium. Annual deposit premium of \$73,968
Ceding commission:	None
4. Type of contract:	Class C2 – Second Per Risk Excess of Loss Layer
Lines reinsured:	All business written by the company classified as property business
Company's retention:	\$130,000 per risk per loss occurrence
Coverage:	100% of each and every loss, including loss adjustment expense, in excess of company's retention up to a maximum \$120,000
Reinsurance premium:	3.25% of the company's net premium. Annual deposit premium of \$25,305
Ceding commission:	None
5. Type of contract:	Class D1 – First Aggregate Excess of Loss
Lines reinsured:	All business written by the company
Company's retention:	75% of company's net premium written
Coverage:	100% of the company's aggregate net losses, including loss adjustment expenses, which exceed 75% of the company's net premiums written, up to 60% of net premiums written
Reinsurance premium:	5.95% of the company's net premium written. Annual deposit premium of \$50,393
Ceding commission:	None
6. Type of contract:	Class D2 – Second Aggregate Excess of Loss

Lines reinsured:	All business written by the company
Company's retention:	135% of company's net premium written
Coverage:	100% of the company's aggregate net losses, including loss adjustment expenses, which exceed 135% of the company's net premiums written
Reinsurance premium:	2.5% of the company's net premium. Annual deposit premium of \$21,174
Ceding commission:	None

III. FINANCIAL DATA

The following financial statements reflect the financial condition of the company as reported to the Commissioner of Insurance in the December 31, 2019, annual statement. Adjustments made as a result of the examination are noted at the end of this section in the area captioned "Reconciliation of Policyholders' Surplus."

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

Assets	Ledger	Nonledger	Not Admitted	Net Admitted
Cash deposited in checking	\$ 246,958	\$	\$	\$ 246,958
Cash deposited at interest	1,593,907			1,593,907
Stocks and mutual fund investments	1,801,944			1,801,944
Real estate	3,368			3,368
Premiums, agents' balances and installments:				
In course of collection	12,071			12,071
Deferred and not yet due	139,240			139,240
Investment income accrued		1,711		1,711
Reinsurance recoverable on paid losses and LAE	3,721			3,721
Electronic data processing equipment	3,313			3,313
Fire dues recoverable	1,065			1,065
Reinsurance premium recoverable	5,206			5,206
Other expense related assets:				
Reinsurance commission receivable	<u>19,737</u>	<u> </u>	<u> </u>	<u>19,737</u>
Totals	<u>\$3,830,530</u>	<u>\$1,711</u>	<u>\$</u>	<u>\$3,832,241</u>

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

Liabilities and Surplus

Net unpaid losses	\$ 16,918
Loss adjustment expenses unpaid	780
Commissions payable	31,092
Federal income taxes payable	183
Unearned premiums	436,578
Other liabilities:	
Expense related:	
Accounts payable	1,509
Policy fees payable to agents	393
Nonexpense related:	
Premiums received in advance	<u>18,883</u>
Total Liabilities	506,336
Policyholders' Surplus	<u>3,325,905</u>
Total Liabilities and Surplus	<u>\$3,832,241</u>

Northeastern Mutual Insurance Company
Statement of Operations
For the Year 2019

Net premiums and assessments earned		\$588,869
Deduct:		
Net losses incurred	\$195,466	
Net loss adjustment expenses incurred	35,378	
Net other underwriting expenses incurred	<u>261,739</u>	
Total losses and expenses incurred		<u>492,583</u>
Net underwriting gain (loss)		96,286
Net investment income:		
Net investment income earned		46,071
Other income (expense):		
Miscellaneous income (expense)		<u>333</u>
Net income (loss) before federal income taxes		142,690
Federal income taxes incurred		<u>10,183</u>
Net Income (Loss)		<u>\$132,507</u>

**Northeastern Mutual Insurance Company
Reconciliation and Analysis of Surplus as Regards Policyholders
For the Five-Year Period Ending December 31, 2019**

The following schedule is a reconciliation of surplus as regards policyholders during the last five years as reported by the company in its filed annual statements:

	2019	2018	2017	2016	2015
Surplus, beginning of year	\$3,175,131	\$3,067,371	\$2,776,304	\$2,468,479	\$2,404,497
Net income (loss)	132,507	99,859	163,502	155,581	27,615
Net unrealized capital gain or (loss)	<u>18,267</u>	<u>7,901</u>	<u>127,565</u>	<u>152,244</u>	<u>36,367</u>
Surplus, End of Year	<u>\$3,325,905</u>	<u>\$3,175,131</u>	<u>\$3,067,371</u>	<u>\$2,776,304</u>	<u>\$2,468,479</u>

Reconciliation of Policyholders' Surplus

The examination resulted in no adjustments to policyholders' surplus. The amount reported by the company as of December 31, 2019, is accepted.

IV. SUMMARY OF EXAMINATION RESULTS

Compliance with Prior Examination Report Recommendations

Comments and recommendations contained in the last examination report and the action taken on them by the company are as follows:

1. Fidelity Bond—It is recommended that the company obtain proper fidelity bond coverage for all employees in accordance with s. Ins 13.05 (6), Wis. Adm. Code.

Action—Compliance.

2. Underwriting—It is suggested that the company include inspection reports and photos of risks in their policy files.

Action—Compliance.

Current Examination Results

Corporate Records

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

Conflict of Interest

In accordance with a directive of the Commissioner of Insurance, each company is required to establish a procedure for disclosing to its board of directors any material interest or affiliation on the part of its officers, directors, or key employees which conflicts or is likely to conflict with the official duties of such person. A part of this procedure is the annual completion of a conflict of interest questionnaire by the appropriate persons. The company has adopted such a procedure for disclosing potential conflicts of interest. Conflict of interest questionnaires were reviewed for the period under examination with no apparent conflicts being noted.

Fidelity Bond and Other Insurance

The company is afforded coverage under the terms of the following bonds or contracts and has complied with s. Ins 13.05 (6), Wis. Adm. Code, which sets forth the minimum requirements for fidelity bond coverage:

Type of Coverage	Coverage Limits
Fidelity bond	\$ 170,000
Worker's Compensation:	
Employee injury	Statutory
Employee liability:	
Each accident	100,000
Each employee	100,000
Policy limit	500,000
Directors & officers liability	1,000,000
Home office property:	
Building	208,641
Business personal property	30,789
Equipment breakdown	239,429
Valuable papers and records	25,000
Outdoor property	2,500
Businessowners:	
Liability-per occurrence	1,000,000
Liability aggregate	2,000,000
Medical expenses-per person	5,000
Employee dishonesty	25,000
Employment practices liability insurance	100,000
Cyber liability	25,000

Underwriting

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

The company has a formal inspection procedure for new business. New applications are usually inspected by the agent using checklists, photos and surveys. Occasionally, an independent adjuster is required to perform an onsite inspection. The company does not have a formal inspection procedure for renewal business; instead, the board monitors losses by property type and agent each quarter.

Claims Adjusting

The company has an adjusting committee consisting of at least three directors as required by s. 612.13 (4), Wis. Stat. The function of this committee is to adjust or supervise the adjustment of losses.

Accounts and Records

The examiner's review of the company's records indicated that the company is in compliance with s. Ins 13.05, Wis. Adm. Code, which sets forth the minimum standards for the handling of cash and recording of cash transactions by town mutual insurance companies. The examiners noted the following:

1. A proper policy register is maintained.
2. A proper cash receipts journal is maintained.
3. A proper cash disbursements journal is maintained.
4. A proper general journal is maintained.
5. A proper general ledger is maintained.

An extensive review was made of income and disbursement items. Cash receipts were traced from source records and the proper recording and eventual deposit thereof ascertained. Negotiated checks issued during the period under examination were reviewed, test checked for proper endorsement, and traced to cash records. The verification of assets and determination of liabilities were made as of December 31, 2019.

The company is audited annually by an outside public accounting firm.

Claims Review

The examiner's 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 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.

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 review resulted in certain findings, which were presented in a letter to management dated November 2, 2020. It is recommended that the company strengthen its information system controls in accordance with the recommendations made in the letter to management dated November 2, 2020.

Company utilizes a third party to back up the computers daily and the backed-up data is kept off-site. The company has adequate access to online help to assist with the use of its software.

Business Continuity Plan

A business continuity plan identifies steps to be performed by a company in the event of business interruptions including, but not limited to the inability to access its computer, the loss of information on its computer, the loss of a key employee, or the destruction of its office building. The company has developed a business continuity plan. The company's business continuity plan appears to be adequate.

Unclaimed Property

During the course of the examination, it was discovered that the company issues all checks and allows six months for them to be deposited. If after this period the check has not been redeemed and the company is unable to contact the payee, the check is voided, and the company retains the funds. This practice is not in compliance with ch. 177, Wis. Stat., which states that after five years an original payment becomes abandoned property and reverts to the state. It is recommended that the company comply with the provisions of ch. 177, Wis. Stat., regarding abandoned property. Specifically, the company should develop and maintain a written escheat policy that addresses the company's procedures relating to stale-dated checks sufficient to ensure compliance with the requirements of ch. 177, Wis. Stat.

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 company invests primarily in cash, cash equivalents, and mutual funds. The examination discovered that the company does not have an investment policy. According to s. Ins. 6.20 (6) (h), Wis. Adm. Code:

The board of directors of a town mutual shall adopt a written plan for acquiring and holding investments and for engaging in investment practices which specifies guidelines as to the quality, maturity, diversification of investments and other specifications including investment strategies intended to assure that the investments and investment practices are appropriate for the business conducted by the insurer, its liquidity needs and the amount of its surplus. The board shall review and assess the company's technical and administrative capabilities and expertise with regard to investments before adopting a written plan concerning any investment strategy or investment practice. The board shall give due consideration to all commissions and expenses associated with each investment, and the effect of such costs on anticipated returns and on liquidity.

It is recommended that the company create an investment policy and have the policy approved by the board of directors.

The company utilizes the services of an investment advisor for its portfolio of mutual funds. The examination revealed that there is no written agreement between the company and its investment advisor. Pursuant to s. Ins. 6.20 (6) (h) 4, Wis. Adm. Code, a town mutual should have a written agreement with the investment advisor that should be approved by the board of directors. An agreement should contain the following provisions:(1) a description of the scope and nature of services to be provided, (2) the standard of care to be provided, (3) how (or whether) the investment strategy (including asset allocations and any applicable limitations) incorporates the board approved investment policy, (4) the level of authority the advisor exercises over the insurer's portfolio (discretionary or nondiscretionary), (5) a description of all types of compensation to be paid to the investment advisor, and (6) a description as to how investment transactions, holdings, and portfolio performance will be communicated to the company's board of directors (including the frequency, content, and means of reporting). The agreement should also indicate whether the investment advisor is, or is not, acting as a fiduciary with respect to the town mutual insurer. It is recommended that the company enter into a formal agreement with its

investment advisor that is approved by the board of directors, and that the agreement contained all required provisions pursuant to s. Ins. 6.20 (6) (h) 4, Wis. Adm. Code.

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	\$ 806,336
2. Liabilities plus 33% of gross premiums written	886,203
3. Liabilities plus 50% of net premiums written	801,423
4. Amount required (greater of 1, 2, or 3)	886,203
5. Amount of Type 1 investments as of 12/31/2019	<u>1,595,322</u>
6. Excess or (deficiency)	<u>\$ 709,119</u>

The company has sufficient Type 1 investments.

The company did not calculate the Type 1 investment amount and excess correctly. Section Ins. 6.20 (6) (b) 2, Wis. Adm. Code, limits investments in “demand deposit, interest bearing accounts and certificates of deposit” to “the total amount eligible for insurance under the financial institutions depositor insurance program.” In the company’s calculation, it did not combine the certificates of deposit and demand deposit account held at the same bank when calculating the deposits exceeding the insured limit. As a result, the company overstated its Type 1 investments by \$189,889. It is recommended that the company calculate Type 1 investments in accordance with s. Ins. 6.20 (6) (b) 2, Wis. Adm. Code.

V. CONCLUSION

Northeastern Mutual Insurance Company is a town mutual insurer with an authorized territory of four counties. The company is authorized to write property, including hail, fire, theft, and liability insurance. The company has been in business for over 145 years providing property and liability insurance to its policyholders.

The company reported net income in each of the five years under examination. During the period under examination, the company's admitted assets increased by 30.6%, gross premiums written increased by 13.3%, policies in force increased by 1.0%, and surplus increased by 38.3%. The increase in admitted assets and surplus was due to the combination of positive investment results and the underwriting profitability of the company. The increase in premiums written was a result of rate increases.

The examination did not result in any changes to surplus. The company complied with the two recommendations from the previous examination report. The current examination resulted in five recommendations. Areas of improvement recommended by this examination relate to information systems, investment internal controls, and the handling of unclaimed property.

VI. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 18 - EDP Environment—It is recommended that the company strengthen its information system controls in accordance with the recommendations made in the letter to management dated November 2, 2020.
2. Page 19 - Unclaimed Property—It is recommended that the company comply with the provisions of ch. 177, Wis. Stat., regarding abandoned property. Specifically, the company should develop and maintain a written escheat policy that addresses the company's procedures relating to stale-dated checks sufficient to ensure compliance with the requirements of ch. 177, Wis. Stat.
3. Page 20 - Investment Policy—It is recommended that the company create an investment policy and have the policy approved by the board of directors.
4. Page 20 - Investment Advisor Agreement—It is recommended that the company enter into a formal agreement with its investment advisor that is approved by the board of directors, and that the agreement contained all required provisions pursuant to s. Ins. 6.20 (6) (h) 4, Wis. Adm. Code.
5. Page 21 - Type 1 Investments—It is recommended that the company calculate Type 1 investments in accordance with s. Ins. 6.20 (6) (b) 2, Wis. Adm. Code.

VII. ACKNOWLEDGMENT

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

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

Respectfully submitted,

A handwritten signature in black ink that reads "Gregory Mielke". The signature is written in a cursive style with a large initial 'G' and a distinct 'M'.

Gregory Mielke
Examiner-in-Charge

VIII. SUBSEQUENT EVENT

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