Report

of the

Examination of

Paris Mutual Fire Insurance Company

Kenosha, Wisconsin

As of December 31, 2012

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State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

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

Wisconsin.gov

125 South Webster Street • P.O. Box 7873
Madison, Wisconsin 53707-7873
Phone: (608) 266-3585 • Fax: (608) 266-9935
E-Mail: ociinformation@wisconsin.gov
Web Address: oci.wi.gov

August 20, 2013

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, 2012, of the affairs and financial condition of:

PARIS MUTUAL FIRE INSURANCE COMPANY
Kenosha, Wisconsin

and the following report thereon is respectfully submitted:

I. INTRODUCTION

The previous examination of Paris Mutual Fire Insurance Company (Paris or the company) was made in 2008 as of December 31, 2007. The current examination covered the intervening time period ending December 31, 2012, 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 was organized as a town mutual insurance company on January 23, 1873, under the provisions of the then existing Wisconsin Statutes. The original name of the company was the Paris Mutual Fire Insurance Company.

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:

Kenosha	Walworth
Jefferson	Waukesha
Racine	

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 does not charge any other fees to policyholders.

Business of the company is acquired through one agent who is not a director of the company. The agent is presently compensated for services as follows:

Type of Policy	**Compensation**
All Business	20%

The agent does not have authority to adjust losses. Losses are adjusted by members of the claims adjusting committee up to $2,000. The board adjusts losses above $2,000. Adjusters receive $50 for each loss adjusted.

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 six 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:

Name	Principal Occupation	Residence	Expiry
Fred Kevek	Business Owner	Bristol, Wisconsin	2016
Eugene Weis	Farmer	Union Grove, Wisconsin	2016
Thomas Hancock	Farm Truck Driver	Kenosha, Wisconsin	2015
Betty Muhlenbeck	Farmer	Kenosha, Wisconsin	2015
James Badtke	Farmer	Union Grove, Wisconsin	2014
John Holloway	Farmer	Union Grove, Wisconsin	2014

No directors are agents of the company.

Members of the board currently receive $50.00 for each meeting attended 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. Secretary Betty Muhlenbeck is the only director who is an employee.

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	2012 Compensation
John Holloway	President	$2,000
Eugene Weis	Vice President	0
Betty Muhlenbeck	Secretary-Manager	8,500
Thomas Hancock	Treasurer	2,000

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

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
Thomas Hancock, Chair
Eugene Weis
Fred Kevek

Investments Committee
Thomas Hancock, Chair
John Holloway
Betty Muhlenbeck

Executive Committee
John Holloway, Chair
Betty Muhlenbeck
Eugene Weis

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
2012	$47,961	89	$ 11,332	$622,327	$578,169
2011	52,709	88	7,227	609,840	570,498
2010	53,717	90	(12,593)	605,404	563,653
2009	50,432	88	17,243	614,388	575,428
2008	51,370	89	22,351	597,562	560,528
2007	45,869	87*	13,020	576,334	536,949

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 Ratios Net	Writings Ratios Gross
2012	$92,401	$51,177	$578,169	9%	16%
2011	85,929	52,068	570,498	9	15
2010	86,953	55,633	563,653	10	15
2009	83,373	52,855	575,428	9	14
2008	78,133	52,743	560,528	9	14
2007	75,273	50,615	536,949	9	14

* The prior examination determined that the number of policies in force as of December 31, 2007, was incorrectly calculated when coverages of multi-peril policies were counted as separate policies. The correct number of policies in force at December 31, 2007, was 87, not 216 as reported by the company.

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	Com-posite Ratio
2012	$11,160	$33,614	$47,961	23%	66%	89%
2011	19,710	35,839	52,709	37	69	106
2010	39,234	41,528	53,717	73	75	148
2009	3,048	38,828	50,432	6	73	80
2008	4,223	31,321	51,370	8	59	68
2007	8,814	31,025	45,869	19	61	81

Gross and net premium written have increased 23% and 1%, to $92,401 and $51,177, respectively, since the last examination. Net premium earned has increased 5% over the exam period, from $45,869 in 2007 to $47,961 in 2012. Policies in force have not changed significantly, remaining below 100 in each of the years of the examination period. Net income has ranged from $(12,593) in 2010 to $22,351 in 2008, with a profit of $11,332 in 2012. The company has paid dividends to its policyholders in each of the years of the examination period. The largest dividends of $15,425 and $10,062 were paid in 2008 and 2009, respectively. In 2010 and 2011, the years when the company had the highest loss ratios of the examination period, the dividends were $91 and $290, respectively. Overall, the five-year average dividends were $5,344. Admitted assets and surplus both increased 8% during the period and were $578,169 and $622,327, respectively, in 2012. The composite ratio was at a high of 148% in 2010 and a low of 68% in 2008. The composite ratio in 2012 was 89%.

II. REINSURANCE

The examiners' review of the company's reinsurance portfolio revealed there is currently one ceding treaty, with five 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, 2013
Termination provisions:	At 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:

1.	Type of contract:	Quota Share (Class A)
	Lines reinsured:	Casualty or liability business
	Company's retention:	None
	Coverage:	100% of each and every loss occurrence, including loss adjustment expense
	Reinsurance premium:	100% of gross premium written in respect to business covered
	Ceding commission:	15% ceding commission
2.	Type of contract:	Excess of Loss (Class C-1)
	Lines reinsured:	All property business written by the company
	Company's retention:	$20,000 per risk, per loss
	Coverage:	Up to $80,000 for a loss, including loss adjustment expense, in excess of $20,000 in respect to each and every risk, resulting from one loss occurrence
	Reinsurance premium:	Sum of the preceding four years' losses incurred by the reinsurer, divided by the total of the net premiums written for the same period, multiplied by the factor 125% Current rate is 12.5%. Minimum rate = 12.5% Maximum rate = 25.00% Annual deposit premium = $9,688
3.	Type of contract:	Excess of Loss (Class C-2)
	Lines reinsured:	All property business

	Company's retention:	$100,000 per risk, per loss
	Coverage:	Up to $100,000 for a loss, including loss adjustment expense, in excess of $100,000 in respect to each and every risk, resulting from one loss occurrence
	Reinsurance premium:	7% of net written premium for business covered by this contract
		Annual deposit premium = $5,425
4.	Type of contract:	Excess of Loss (Class C-3)
	Lines reinsured:	All property business written by the company
	Company's retention:	$200,000 per risk, per loss
	Coverage:	Up to $400,000 for a loss, including loss adjustment expense, in excess of $200,000 in respect to each and every risk, resulting from one loss occurrence
	Reinsurance premium:	6% of net written premium for business covered by this contact
		Annual deposit premium = $4,650
5.	Type of contract:	Stop Loss (Class D/E)
	Lines reinsured:	All business written by the company
	Company's retention:	110% of net written premium. Estimated attachment point is $85,250.
	Coverage:	100% of the aggregate losses, including loss adjustment expenses, exceeding the company's retention
	Reinsurance premium:	12.5% of net premium written for business covered by this contract

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, 2012, 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."

Paris Mutual Fire Insurance Company
Statement of Assets and Liabilities
As of December 31, 2012

Assets	Ledger	Nonledger	Not Admitted	Net Admitted
Cash in checking	$ 22,648	$	$	$ 22,648
Cash deposited at interest	297,570			297,570
Bonds	228,271			228,271
Stocks and mutual fund investments	69,804			69,804
Premiums, agents' balances and installments:				
In course of collection	756			756
Deferred and not yet due				
Investment income accrued		3,100		3,100
Fire dues recoverable	178			178
Other nonadmitted assets:				
Prepaid expenses	1,188		1,188	0
Totals	$620,415	$3,100	$1,188	$622,327

Liabilities and Surplus

Net unpaid losses	$ 200
Unpaid loss adjustment expenses	40
Unearned premiums	40,943
Reinsurance payable	1,658
Amounts withheld for the account of others	485
Payroll taxes payable (employer's portion)	828
Other liabilities:	
Nonexpense-related:	
Premiums received in advance	3
Rounding	1
Total liabilities	44,158
Policyholders' surplus	578,169
Total Liabilities and Surplus	$622,327

Paris Mutual Fire Insurance Company
Statement of Operations
For the Year 2012

Net premiums and assessments earned		$47,961
Deduct:		
Net losses incurred	$ 9,170	
Net loss adjustment expenses incurred	1,990	
Net other underwriting expenses incurred	33,614	
Total losses and expenses incurred		44,774
Net underwriting gain (loss)		3,187
Net investment income:		
Net investment income earned	8,560	
Net realized capital gains (losses)	436	
Total investment gain (loss)		8,996
Net income (loss) before policyholder dividends and before federal income taxes		12,183
Policyholder refunds or dividends		851
Net Income (Loss)		$11,332

Paris Mutual Fire Insurance Company
Reconciliation and Analysis of Surplus as Regards Policyholders
For the Five-Year Period Ending December 31, 2012

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:

	2012	2011	2010	2009	2008
Surplus, beginning of year	$570,498	$563,653	$575,428	$560,528	$536,949
Net income	11,332	7,227	(12,593)	17,243	22,351
Net unrealized capital gain or (loss)	(3,816)	(448)	869	(2,319)	1,220
Change in nonadmitted assets	155	66	(51)	(24)	8
Surplus, End of Year	$578,169	$570,498	$563,653	$575,428	$560,528

Reconciliation of Policyholders' Surplus

The examination resulted in no adjustments to policyholders' surplus. The amount reported by the company as of December 31, 2012, 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. Corporate Records—It is recommended that the company comply with s. 612.13 (4), Wis. Stat., and appoint the adjusting committee and include in the minutes of the board meeting that the committee is appointed.

   Action—Compliance.

2. Corporate Records—It is recommended that the company come into compliance with s. 612.13 (1m), Wis. Stat., by either increasing the board to nine members or have only one employee be on the board.

   Action—Compliance.

3. Underwriting—It is suggested that the company establish a formal inspection procedure for new and renewal business, whereby a sampling of new applications and of renewal business is inspected by committee members independent of the risk under consideration.

   Action—Compliance.

4. Unearned Premiums—It is again recommended that the company comply with s. Ins 13.08 (3)(a), Wis. Adm. Code, by correctly calculating unearned premium by applying the 50% factor to the full-term premium for policies with mid-term endorsements or cancellations.

   Action—Compliance.

5. Unearned Premiums—It is again recommended that the number of policies and premium in force be calculated correctly on future annual statements.

   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 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	$ 40,000
Worker's compensation:	
Employee injury	Statutory
Employee liability:	
Each accident	100,000
Each employee	100,000
Policy limit	500,000
Directors' and officers' liability	1,000,000
Deductible	2,500
Errors and Omissions	
Each claim	1,000,000
Aggregate	1,000,000
Deductible	2,500

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 both new and renewal business. A sampling of new applications and renewal business is inspected by committee members who are independent of the risk under consideration and review.

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 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.

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, 2012.

Consistent with the exception allowed by s. Ins 50.02 (3), Wis. Adm. Code, the company is not audited annually by an outside public accounting firm.

EDP Environment

Company personnel were interviewed with respect to the company's electronic data processing environment. The company does not use computers to process its data.

Business Plan

Since the last examination the number of policies in force has remained between 88 and 90. This is below the minimum of 100 policyholders required by s. 612.02 (1), Wis. Stat., to organize a town mutual company. The company has not revised its policy rates and forms for many years, which might be a contributing factor to sluggish premium growth. Since the last examination net premium written and net premium earned has increased by 1% to $51,177 and 5% to $47,961, respectively. Gross premium written has increased 23%, from $75,273 in 2007 to $92,401 in 2012, mainly due to an increase in coverage of existing policies.

The company does not have a succession plan in the event its key employees or agents become unavailable and there is only one agent who generates and produces all policies. All day-to-day operations are performed by the manager, whose house is used as the company's home office.

The policyholder base is very loyal and stable, and underwriting is simplified by the fact that many, if not all, policyholders have stayed with the company for many years. The company's technological resources are minimal and, although appear sufficient to accommodate the current volume of business, may be considered inadequate with sizable expansion of the business base.

According to s. 612.33, Wis. Stat., every town mutual is required to buy unlimited reinsurance coverage protecting the company from catastrophic losses and for nonproperty insurance. The company's current reinsurance program affords reinsurance coverage above the company's retention of $0 for nonproperty and $20,000 for property business. A combination of slow premium growth, a low number of policyholders, outdated policy rates and forms, technological limitations and the lack of succession planning raises concerns about the future viability of the company. Given the above situation, the company might not be able to secure reinsurance coverage for future years. It is recommended that the company identify and present to OCI, within 10 days of adoption of this report, a plan of action approved by the board of directors that provides assurance that the company will continue to serve the best interests of its policyholders. The board should consider the following:

- Merge Paris Mutual Fire Insurance Company into another town mutual.
- Develop a business plan that addresses the lack of growth of the company. The plan should include (but not necessarily be limited to) financial projections for premium, losses, and underwriting expenses; a description of the measures necessary to achieve these goals including any plans to upgrade the company's technological base; revision of existing underwriting and inspection guidelines; and revision of existing policy forms and rates. These measures must be sufficient to secure reinsurance coverage for future years.
- Cease the writing of new and renewal business and run off existing business under a voluntary dissolution plan.

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; however, the plan appears to be insufficient. The plan does not address how and by whom the key positions in the company would be filled in the event of the departure of current employees. Succession planning provides an important tool to ensure that critical knowledge and expertise is not lost in the event of the departure, either unexpected or planned, of current employees. It is recommended that the company develop a formal business continuity plan detailing ways for it to continue operation in the most effective and efficient manner in case anything happens to interrupt its normal business process.

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 not in compliance with these requirements. The company has a custodial agreement with Waukesha State Bank dated April 8, 2004. However, the bank uses a non-bank sub-custodian, RBC Wealth Management, a division of RBC Capital Markets, LLC, for all company assets held under the custodial agreement. A review of the company's custodial agreement revealed that the custodian is responsible only for securities actually deposited with Waukesha State Bank. The agreement does not specify what responsibilities, if any, the custodian will have in the event a sub-custodian is used to hold the company's investments. It is recommended that the company revise its custodial agreement to extend the custodian's indemnification for negligence or dishonesty under the custodial agreement to apply to any sub-custodians.

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	$344,158
2.	Liabilities plus 33% of gross premiums written	74,650
3.	Liabilities plus 50% of net premiums written	69,747
4.	Amount required (greater of 1, 2, or 3)	344,158
5.	Amount of Type 1 investments as of 12/31/2012	551,707
6.	Excess or (deficiency)	$207,549

The company has sufficient Type 1 investments.

ASSETS

Cash and Invested Cash **$320,218**

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

Cash deposited in banks—checking accounts	$ 22,648
Cash deposited in banks at interest	297,570
Total	$320,218

Cash in the company's office at year-end represents the company's petty cash fund. A physical count was made by the examiners during the course of the examination and the balance reconciled to year-end.

Cash deposited in banks subject to the company's check and withdrawal consists of five accounts maintained in three banks. Verification of checking account balances was made by obtaining confirmations directly from the depositories and reconciling the amounts shown thereon to company records.

Cash deposited in banks represents the aggregate of five deposits in three 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 2012 totaled $4,485 and was verified to company cash records. Rates of interest earned on cash deposits ranged from 0.55% to 1.85%. Accrued interest on cash deposits totaled $315 at year-end.

Book Value of Bonds **$228,271**

The above asset consists of the aggregate book value of bonds held by the company as of December 31, 2012. Bonds owned by the company are held under a custodial agreement with Waukesha State Bank; however, as previously noted, the bank uses a non-bank sub-custodian to hold all of the company’s assets in custody.

Bonds were physically inspected by the examiners. Bond purchases and sales for the period under examination were checked to brokers' invoices and advices. The company's investment in bonds was in conformance with Wisconsin Statutes and the rules of the Commissioner of Insurance as regards investments made by town mutual insurers.

Interest received during 2012 on bonds amounted to $9,046 and was traced to cash receipts records. Accrued interest of $2,785 at December 31, 2012, was checked and allowed as a nonledger asset.

Stocks and Mutual Fund Investments **$69,804**

The above asset consists of the aggregate market value of stocks and mutual funds held by the company as of December 31, 2012. Stocks owned by the company are located in a safe deposit box at a bank.

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 in conformance with Wisconsin Statutes and the rules of the Commissioner of Insurance as regards investments made by town mutual insurers.

Dividends received during 2012 on stocks and mutual funds amounted to $4,201 and were traced to cash receipts records. Accrued dividends of $3,100 at December 31, 2012, were checked and allowed as a nonledger asset.

Premiums, Agents' Balances in Course of Collection **$756**

This asset represents the amounts due from agents or policyholders which are not in excess of 90 days past due at year-end. A review of detailed premium records verified the accuracy of this asset.

Investment Income Accrued **$3,100**

Interest due and accrued on the various assets of the company at December 31, 2012, consists of the following:

Cash deposited at interest	$ 315
Bonds	2,785
Total	$3,100

Fire Dues Recoverable **$178**

This asset represents the amount overpaid to the state of Wisconsin for 2012 fire dues. The examiners reviewed the company's fire department dues calculation and found this asset to be correctly calculated. The actual amount paid was verified to the cash disbursement records.

Prepaid Expenses **$0**

This asset consists of $1,188 of insurance premiums paid by the company in advance on policies the company has for its own protection and prepaid dues. In accordance with annual statement requirements, this amount has been reported as a nonadmitted asset, thus the balance shown above is $0.

LIABILITIES AND SURPLUS

Net Unpaid Losses **$200**

This liability represents losses incurred on or prior to December 31, 2012, 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, 2012, with incurred dates in 2012 and prior years. 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	$201,200	$201,000	$200
Less: Reinsurance recoverable on unpaid losses	201,000	201,000	0
Net Unpaid Losses	$ 200	$ 0	$200

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.

Unpaid Loss Adjustment Expenses **$40**

This liability represents the company's estimate of amounts necessary to settle losses which were incurred prior to December 31, 2012, but which remained unpaid as of year-end. The methodology used by the company in establishing this liability is to estimate adjusting expenses for claims that were open at year-end.

The examiners' analysis of expenses incurred in the current year related to the settlement of prior year losses, as well as estimates of amounts necessary to settle any prior losses remaining unpaid at the examination date, determined this liability to be adequately stated.

Unearned Premiums **$40,943**

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 applying 50% to the net premium in force.

Reinsurance Payable **$1,658**

This liability consists of amounts due to the company's reinsurer at December 31, 2012, relating to transactions which occurred on or prior to that date.

Class A	$ 14
Class C-1	552
Class C-2	283
Class C-3	257
Class D/E	552
Total	$1,658

Subsequent cash disbursements and reinsurance accountings verified the amount of this liability.

Amounts Withheld for the Account of Others **$485**

This liability represents employee payroll deductions in the possession of the company at December 31, 2012. Supporting records and subsequent cash disbursements verified this item.

Payroll Taxes Payable **$828**

This liability represents the company's portion of payroll taxes incurred prior to December 31, 2012, which had not yet been paid. Supporting records and subsequent cash disbursements verified this item.

V. CONCLUSION

Paris Mutual Fire Insurance Company is a town mutual insurer authorized in five counties. The company has been in business over 139 years providing property and liability insurance to its policyholders.

Since the previous examination as of December 31, 2007, most aspects of the company have remained unchanged. Net premiums earned increased over the exam period from $45,869 in 2007 to $47,961 in 2012. Net income was $13,020 in 2007 compared to $11,332 in 2012. Admitted assets and surplus both increased during the period to $578,169 and $622,327, respectively, in 2012. Net loss incurred and net loss adjustment expenses incurred increased to $9,170 and $1,990, respectively, in 2012. The composite ratio was at a high in 2010 at 150% to a low of 69% in 2008. The composite ratio in 2012 was 93%.

The current examination resulted in three recommendations. None of them are repeat recommendations from the prior examination. The recommendations are listed in summary form on the following page.

VI. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 16 - Business Plan—It is recommended that the company identify and present to OCI, within 10 days of adoption of this report, a plan of action approved by the board of directors that provides assurance that the company will continue to serve the best interests of its policyholders. The board should consider the following:
   - Merge Paris Mutual Fire Insurance Company into another town mutual.
   - Develop a business plan that addresses the lack of growth of the company. The plan should include (but not necessarily be limited to) financial projections for premium, losses, and underwriting expenses; a description of the measures necessary to achieve these goals including any plans to upgrade the company's technological base; revision of existing underwriting and inspection guidelines; and revision of existing policy forms and rates. These measures must be sufficient to secure reinsurance coverage for future years.
   - Cease the writing of new and renewal business and run off existing business under a voluntary dissolution plan.

2. Page 16 - Business Continuity Plan—It is recommended that the company develop a formal business continuity plan detailing ways for it to continue operation in the most effective and efficient manner in case anything happens to interrupt its normal business process.

3. Page 17 - Invested Assets—It is recommended that the company revise its custodial agreement to extend the custodian's indemnification for negligence or dishonesty under the custodial agreement to apply to any sub-custodians.

VII. ACKNOWLEDGMENT

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

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

Respectfully submitted,

Rachel Liu
Examiner-in-Charge

VIII. SUBSEQUENT EVENTS

In September of 2013, the boards of directors of Paris Mutual Fire Insurance Company and Kenosha County Mutual Insurance Company approved the plan of merger between the two companies. The plan of merger will be submitted to the Office of the Commissioner of Insurance for the approval. If the plan is approved by the Commissioner, a special joint meeting of the companies' policyholders will be held for the purpose of voting upon the recommendations presented to the companies by their respective boards of directors that Paris Mutual Fire Insurance Company be merged into Kenosha Mutual Insurance Company.