

Report
of the
Examination of
Racine County Mutual Insurance Company
Franksville, Wisconsin
As of December 31, 2014

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State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

Scott Walker, Governor
Theodore K. Nickel, Commissioner

Wisconsin.gov

July 1, 2015

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Honorable Theodore K. Nickel
Commissioner of Insurance
State of Wisconsin
125 South Webster Street
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Commissioner:

In accordance with your instructions, an examination has been performed as of
December 31, 2014, of the affairs and financial condition of:

RACINE COUNTY MUTUAL INSURANCE COMPANY
Franksville, Wisconsin

and the following report thereon is respectfully submitted:

I. INTRODUCTION

The previous examination of Racine County Mutual Insurance Company (RCMIC or the company) was made in 2010 as of December 31, 2009. The current examination covered the intervening time period ending December 31, 2014, 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 assistance with complex transactions such as accounting for income taxes, making year-end adjusting entries, and compilation of the annual statement. 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 January 1, 1873, under the provisions of the then existing Wisconsin Statutes. The original name of the company was the Raymond Mutual Fire Insurance Company. Subsequent amendments to the company's articles and bylaws changed the company's name to that presently used.

During the period under examination, there were no amendments to the articles of incorporation and one amendment to the bylaws. In 2011 the board of directors amended the bylaws, setting the maximum age for directors at 80 years.

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:

Jefferson	Rock
Kenosha	Walworth
Milwaukee	Washington
Ozaukee	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 one year 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 79 agents, who write for 14 different agencies. The company's secretary, Lee Fuhrman, was the prior owner of Fuhrman Insurance Unlimited, which produces 31% of the company's business; however, in 2009 he sold the agency

to a relative. Mr. Fuhrman is no longer involved in the day-to-day operations of Fuhrman Insurance Unlimited. Agents are presently compensated for their services as follows:

Type of Policy	Compensation
New and Renewal Business	15%

Agents do not have authority to adjust losses. The company's manager or secretary may adjust claims if the policy limit is below \$1,000. When a company employee adjusts a claim, they receive \$0.575 per mile for travel allowance. Complex claims and claims with expected settlements above \$1,000 are referred to an outside adjuster.

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
Robert Grove	Farmer	Caledonia, WI	2015
Randy Peterka	Farmer	Caledonia, WI	2015
James Holding	Farmer	Franksville, WI	2016
Barbara Welch	Real Estate Agent	Caledonia, WI	2016
Lee Fuhrman*	Insurance Agency (retired)	Racine, WI	2017
Gilbert Hagemann	Farmer	Franksville, WI	2017

Directors who are also agents are identified with an asterisk. It should be noted that although Mr. Fuhrman is currently an appointed agent, he does not actively produce any business for the company.

Members of the board currently receive \$100 for half-day meetings attended, \$150 for all-day meetings, \$75 for each committee meeting, and \$0.575 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	2014 Compensation
Randy Peterka	President and Treasurer	\$ 6,890
James Holding	Vice President	990
Lee Fuhrman	Secretary	20,968
Christine Sorenson	General Manager	60,500

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:

Claims Committee

Gilbert Hagemann
James Holding
Robert Grove

Underwriting Committee

Randy Peterka
Lee Fuhrman
Barbara Welch

Inspection Committee

Gilbert Hagemann,
Lee Fuhrman
Robert Grove

Executive Committee

Randy Peterka
Lee Fuhrman
James Holding

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
2014	\$658,174	1,599	\$ 14,299	\$3,483,363	\$2,748,645
2013	474,717	1,331	56,121	3,235,709	2,609,384
2012	448,790	976	25,437	2,979,349	2,505,829
2011	438,632	883	32,337	2,940,997	2,515,429
2010	479,628	860	86,987	2,917,339	2,491,189
2009	508,268	899	146,186	2,771,511	2,347,395

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

Year	Gross Premiums Written	Net Premiums Written	Policyholders' Surplus	Writings Net	Ratio Gross
2014	\$1,180,326	\$754,336	\$2,748,645	27%	43%
2013	968,950	588,811	2,609,384	23	37
2012	760,976	477,044	2,505,829	19	30
2011	701,644	454,528	2,515,429	18	28
2010	679,005	462,287	2,491,189	19	27
2009	723,386	494,232	2,347,395	21	31

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
2014	\$306,188	\$408,691	\$658,174	47%	54%	101%
2013	139,982	358,998	474,717	29	61	90
2012	203,929	283,589	448,790	45	59	105
2011	211,308	265,707	438,632	48	58	107
2010	169,340	289,351	479,628	35	63	98
2009	103,399	289,552	508,268	20	59	79

During the five-year period under examination the company experienced significant premium growth. During this period gross premiums written increased by 63% and the number of policies in force increased by 78%. A majority of the growth came from an increase in business produced by two agencies. Despite the substantial increase in premiums written, the company's surplus remains fairly well leveraged, as its net and gross writings are 27% and 43%, respectively. Surplus increased 17% to \$2,748,645. The increase in surplus was mostly due to

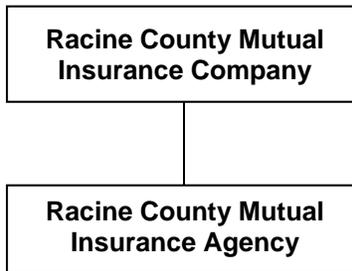
positive investment returns, as the company reported underwriting losses in four out of five years. The five-year net loss and LAE ratio was 41% and the five-year expense ratio was 59%.

During the period under examination, the company had a somewhat elevated expense ratio which ranged from 54% to 63%, with an average of 59%. The average expense ratio for a town mutual in 2014 was 49%. A majority of the company's expenses are from commissions; company currently pays 15% commission on new and renewal business and also offers a contingent commission of 1-4% based on the agencies year-end results. The company's expense ratio decreased 7 points to 54% in 2014. The decrease was mostly attributable to an increase in writings, which effectively lowers the cost of overhead.

II. AFFILIATED COMPANIES

The company is a member of a holding company system. It is the ultimate parent. The organizational chart below depicts the company's relationship with the affiliate in the group. A brief description of the affiliate follows the organizational chart.

Holding Company Chart As of December 31, 2014



Racine County Mutual Insurance Agency was created by Racine County Mutual Insurance Company so it could offer automobile insurance through the agency and issue policies in conjunction with its homeowner's and farmowner's policies. The agency was created on June 28, 2012, and was initially capitalized at \$5,000 with RCMIC holding 100% of the outstanding shares.

The agency has a contract with 1st Auto & Casualty Insurance Company to offer auto insurance to RCMIC policyholders. As of December 31, 2014, the agency's unaudited financial statement reported assets of \$4,109, liabilities of \$0, and equity of \$4,109.

III. REINSURANCE

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

Reinsurer:	Wisconsin Reinsurance Corporation
Effective date:	January 1, 2015
Termination provisions:	Either party may terminate the contract and/or its exhibits as of any subsequent 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: | Exhibit AX1 Excess of Loss |
| Lines reinsured: | Liability |
| Company's retention: | \$2,500 each and every loss occurrence |
| Coverage: | 100% of each and every loss, including loss adjustment expense, subject to the maximum policy limits of: <ol style="list-style-type: none">\$1,000,000 per occurrence, single limit or combined for bodily 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 per accident for personal lines |
| Reinsurance premium: | 65% of the company's net premium written
Annual premium deposit: \$87,750 |
- | | |
|----------------------|---|
| Type of contract: | Exhibit B1 First Surplus |
| Lines reinsured: | All property business |
| Company's retention: | \$400,000 per ceded risk |
| Coverage: | Up to \$2,000,000 on a pro rata basis, company may apply for facultative coverage on single location policies in excess of \$2,500,000

Pro rata portion of each and every loss, including loss adjustment expense, corresponding to the amount of the risk ceded |
| Reinsurance premium: | Pro rata share of all premiums and fees charged by the company corresponding to the amount of each risk ceded
Annual premium deposit: \$51,911 |

	Ceding commission:	Commission rate = 15%, plus 15% profit commission
3.	Type of contract:	Exhibit C1 First Excess of Loss
	Lines reinsured:	All property business
	Company's retention:	\$75,000
	Coverage:	100% of each and every loss, including loss adjustment expense, in excess of \$75,000, subject to a limit of liability to the reinsurer of \$75,000
	Reinsurance premium:	6.25% of the company's net premiums in respect to the business covered Annual premium deposit: \$63,618
4.	Type of contract:	Exhibit C2 Second Excess of Loss
	Lines reinsured:	All property business
	Company's retention:	\$150,000
	Coverage:	100% of each and every loss, including loss adjustment expense, in excess of \$150,000, subject to a limit of liability to the reinsurer of \$250,000
	Reinsurance premium:	6% of the company's net premiums in respect to the business covered Annual premium deposit: \$60,785
5.	Type of contract:	Exhibit D1 First Aggregate Excess of Loss
	Lines reinsured:	All business
	Company's retention:	75.0% of net premium written Estimated attachment point: \$795,254
	Coverage:	100% of each and every loss in excess of 75% of net premium written up to 135%, including loss adjustment expenses
	Reinsurance premium:	6% of net written premium Annual premium deposit: \$63,620
6.	Type of contract:	Exhibit D2 Second Aggregate Excess of Loss
	Lines reinsured:	All business
	Company's retention:	135% of net premium written
	Coverage:	100% of annual aggregate losses in excess of the retention, including loss adjustment expenses
	Reinsurance premium:	2.5% of net written premium Annual premium deposit: \$26,508

IV. FINANCIAL DATA

The following financial statements reflect the financial condition of the company as reported to the Commissioner of Insurance in the December 31, 2014, 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."

Racine County Mutual Insurance Company
Statement of Assets and Liabilities
As of December 31, 2014

Assets	Ledger	Nonledger	Not Admitted	Net Admitted
Cash on hand	\$ 44	\$	\$	\$ 44
Cash in checking	168,135			168,135
Cash deposited at interest	1,868,182			1,868,182
Stocks and mutual fund investments	1,244,015			1,244,015
Premiums, agents' balances and installments:				
In course of collection	42,456			42,456
Deferred and not yet due	151,077			151,077
Investment income accrued		2,210		2,210
Other nonexpense-related assets:				
Federal income tax recoverable	<u>7,244</u>	<u> </u>	<u> </u>	<u>7,244</u>
Totals	<u>\$3,481,153</u>	<u>\$2,210</u>	<u>\$ </u>	<u>\$3,483,363</u>

Liabilities and Surplus

Net unpaid losses	\$ 24,500
Unpaid loss adjustment expenses	2,000
Commissions payable	73,724
Fire department dues payable	6,211
Unearned premiums	576,169
Reinsurance payable	30,389
Other liabilities:	
Expense-related:	
Accounts payable	2,295
Nonexpense-related:	
Premiums received in advance	<u>19,430</u>
Total liabilities	734,718
Policyholders' surplus	<u>2,748,645</u>
Total Liabilities and Surplus	<u>\$3,483,363</u>

Racine County Mutual Insurance Company
Statement of Operations
For the Year 2014

Net premiums and assessments earned		\$658,174
Deduct:		
Net losses incurred	\$251,715	
Net loss adjustment expenses incurred	54,473	
Net other underwriting expenses incurred	<u>408,691</u>	
Total losses and expenses incurred		<u>714,879</u>
Net underwriting gain (loss)		(56,705)
Net investment income:		
Net investment income earned		58,571
Other income (expense):		
Miscellaneous		<u>19,433</u>
Net income (loss) before federal income taxes		21,299
Federal income taxes incurred		<u>7,000</u>
Net Income (Loss)		<u>\$ 14,299</u>

**Racine County Mutual Insurance Company
Reconciliation and Analysis of Surplus as Regards Policyholders
For the Five-Year Period Ending December 31, 2014**

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:

	2014	2013	2012	2011	2010
Surplus, beginning of year	\$2,609,384	\$2,505,829	\$2,515,429	\$2,491,189	\$2,347,395
Net income	14,299	56,121	25,437	32,337	86,987
Net unrealized capital gain or (loss)	<u>124,962</u>	<u>47,434</u>	<u>(35,037)</u>	<u>(8,097)</u>	<u>56,807</u>
Surplus, End of Year	<u>\$2,748,645</u>	<u>\$2,609,384</u>	<u>\$2,505,829</u>	<u>\$2,515,429</u>	<u>\$2,491,189</u>

Reconciliation of Policyholders' Surplus

The examination resulted in no adjustments to policyholders' surplus. The amount reported by the company as of December 31, 2014, is accepted.

V. 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 file amended articles and bylaws with this office after any changes have been voted on and approved in accordance with s. 612.04 (2), Wis. Stat.

Action—Compliance

2. Corporate Records—It is recommended that the company file changes to its territory with this office for approval within 60 days of the adoption of this report in accordance with s. 612.02 (2) (c), Wis. Stat.

Action—Compliance

3. Accounts and Records—It is recommended that the company adhere to its policy regarding check signatures in compliance with s. 13.05 (4) (b), Wis. Adm. Code.

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."

The company is required to file with this office all agents that write business for the company, pursuant to s. 628.11, Wis. Stat. The company was unable to produce a master list of all active agents licensed to produce business. Instead, the agents were listed in various files which makes it very difficult to track and monitor the status of the agents. Not maintaining a complete and accurate roster of active agents could result in discrepancies in reporting and omissions in tracking changes in agents' status. It is recommended that the company develop a system to track agents who are licensed to produce business to ensure that the company has an accurate and complete list of its agents.

Agency Operations

During the review of the agency it was noted there were no form B&C filings submitted to the commissioner subsequent to the formation of the agency. Section Ins 40.03 (2), Wis. Adm. Code, requires members of a holding company system to file a registration form annually with the commissioner. It is recommended that the company submit all required holding company filings for its wholly owned insurance agency in accordance with s. Ins 40.03 (2), Wis. Adm. Code. It was also noted that the company had not executed a cost-sharing agreement with its agency. A cost-sharing agreement is necessary to ensure services provided to the subsidiary are in conformity with customary insurance practices and are consistently applied. It is recommended that the company execute a cost-sharing agreement with its subsidiary and file the agreement with this office in accordance with s. Ins 40.04 (2) (d), Wis. Adm. Code.

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	\$ 250,000
Worker's compensation:	
Employee injury	Statutory
Employee liability:	
Each accident	100,000
Each employee	100,000
Policy limit	500,000
Commercial property:	
Legal liability— real property	150,000
Personal property	50,000
Papers & records	10,000
Commercial general liability:	
General aggregate	1,000,000
Products—completed operations	1,000,000
Personal and advertising injury	1,000,000
Each occurrence	1,000,000
Damage to premises rented	100,000
Medical payments—per person	5,000
Commercial auto:	
Bodily injury liability	1,000,000
Property damage liability	1,000,000
Combined professional and D&O liability	2,000,000

Underwriting

The company has a written underwriting guide. The guide covers all the lines of business that the company is presently writing. During review of the underwriting guidelines, it

was noted that many of the procedures were outdated and no longer being followed by the company. It is recommended that the company review and update its underwriting guidelines to better reflect the current underwriting policies that are in place.

During review of the company's underwriting guidelines it was noted that policies are supposed to be cancelled after the account is over 15 days past due. During testing it was noted that there were several accounts that were overdue by more than 90 days. It is recommended that the company monitor its overdue accounts and cancel any policies that have lapsed 15 days past the due date in accordance with its underwriting guidelines.

The company does not have a formal inspection procedure for new or renewal business. The company stated that nearly all new policies are inspected when issued. There are, however, certain instances where an exception is made. For example, if a house is new and the purchaser needs an insurance policy to secure a mortgage, the company may forego an inspection. The examiners reviewed a sample of 40 policies, and for each policy it was noted that an inspection had occurred when the policy was originally issued. It was also noted that renewals are generally re-inspected every three to five years. The company may pass on some renewal inspections if it feels that there are no issues. However there are no specific policies in place to ensure that properties are re-inspected. It is recommended 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.

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. During the examination it was noted that the entire board acts as the adjusting committee. Claims are reviewed by the entire board at quarterly board meetings.

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, 2014.

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

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.

Company personnel back up the computers daily and the backed-up data is kept off-site. Monthly backups are also performed and the data is held onsite in a fireproof filing cabinet.

The company has manuals documenting the use of its software and outlining the steps to complete specific tasks. The manuals assist in the continuity of operations by providing instructions for seldom-used applications or when staff turnover occurs.

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.

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.

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	\$1,034,718
2. Liabilities plus 33% of gross premiums written	1,124,226
3. Liabilities plus 50% of net premiums written	983,649
4. Amount required (greater of 1, 2, or 3)	1,124,226
5. Amount of Type 1 investments as of 12/31/2014	<u>2,036,317</u>
6. Excess or (deficiency)	<u>\$ 912,091</u>

The company has sufficient Type 1 investments.

ASSETS

Cash and Invested Cash **\$2,036,361**

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

Cash in company's office	\$ 44
Cash deposited in banks—checking accounts	168,135
Cash deposited in banks at interest	<u>1,868,182</u>
Total	<u>\$2,036,361</u>

Cash in 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 one account maintained in a local bank. Verification of checking account balances was made by obtaining confirmations directly from the depository and reconciling the amounts shown thereon to company records.

Cash deposited in banks represents the aggregate of 20 deposits in 16 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 2014 totaled \$18,508 and was verified to company cash records. Rates of interest earned on cash deposits ranged from 0.2% to 1.49%. Accrued interest on cash deposits totaled \$2,210 at year-end.

It was noted during the review of outstanding checks that the company has several checks outstanding that are over five years old. Chapter 177, Wis. Stat., requires certain types of unclaimed property, including uncashed checks, to be remitted to the state after five years of dormancy. It is recommended that the company establish an appropriate escheats procedure and remit all unclaimed funds over five years old to the Wisconsin Department of Revenue.

Stocks and Mutual Fund Investments **\$1,244,015**

The above asset consists of the aggregate market value of stocks and mutual funds held by the company as of December 31, 2014. Stocks owned by the company are located in a fireproof safe.

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 2014 on stocks and mutual funds amounted to \$66,854 and were traced to cash receipts records. There were no accrued dividends at December 31, 2014.

Premiums, Agents' Balances in Course of Collection \$42,456

This asset represents the amounts due from agents or policyholders which are not in excess of 90 days past due at year-end. It was noted during the review of premiums in course of collection that there were several accounts that were overdue by more than 90 days. According to the Town Mutual Annual Statement Instructions, premiums that are 90 days overdue should be classified as nonadmitted assets. It is recommended that the company properly nonadmit any uncollected premiums that are over 90 days past due in accordance with the Town Mutual Annual Statement Instructions. The amount of premium over 90 days past due was not considered material for purposes of this examination, and therefore no adjustment to surplus was made.

Premiums Deferred and Not Yet Due \$151,077

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

Investment Income Accrued \$2,210

Interest due and accrued on the various assets of the company at December 31, 2014, consists of the following:

Certificates of deposit	\$2,154
Savings account	<u>56</u>
Total	<u>\$2,210</u>

Federal Income Tax Recoverable**\$7,244**

This asset represents the estimated recoverable at year-end for federal income taxes incurred prior to December 31, 2014. A review of the company's federal income tax filing verified the above asset.

LIABILITIES AND SURPLUS

Net Unpaid Losses **\$24,500**

This liability represents losses incurred on or prior to December 31, 2014, 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, 2014, with incurred dates in 2014 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	\$48,229	\$161,090	\$(112,861)
Less: Reinsurance recoverable on unpaid losses	<u>23,728</u>	<u>123,728</u>	<u>(100,000)</u>
Net Unpaid Losses	<u>\$24,501</u>	<u>\$ 37,362</u>	<u>\$ (12,861)</u>

The above difference of \$(12,861) represents a reserve deficiency; however, the amount was not considered material for purposes of this examination.

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 **\$2,000**

This liability represents the company's estimate of amounts necessary to settle losses which were incurred prior to December 31, 2014, but which remained unpaid as of year-end. The company's management estimates \$250 per open claim, which is based on historical trends.

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.

Commissions Payable **\$73,724**

This liability represents the commissions payable to agents as of December 31, 2014. The examiners reviewed the company's commission calculation and subsequent commission payments and found the liability to be reasonably stated.

Fire Department Dues Payable **\$6,211**

This liability represents the fire department dues payable to the state of Wisconsin as of December 31, 2014.

The examiners reviewed the company's fire department dues calculation and found this liability to be correctly calculated. The actual amount paid was verified to the cash disbursement records.

Unearned Premiums **\$576,169**

This liability represents the reserve established for unearned premiums in compliance with s. Ins 13.08 (3), Wis. Adm. Code. This reserve was established using a daily pro rata methodology.

Reinsurance Payable **\$30,389**

This liability consists of amounts due to the company's reinsurer at December 31, 2014, relating to transactions which occurred on or prior to that date. Subsequent payments and confirmations with the reinsurer verified these amounts.

Class A Nonproperty	\$ 9,266
Class C1 Excess of Loss	6,535
Class C2 Excess of Loss	3,287
Class D1 Stop Loss	3,305
Class D2 Stop Loss	1,387
Deferred Premium (Net of Commissions)	<u>6,609</u>
	<u>\$30,389</u>

Accounts Payable**\$2,295**

This liability represents a general reserve for expenses which were incurred prior to December 31, 2014, but which remained unpaid as of year-end. The amount is an estimate and is not considered material for purposes of this examination.

Premiums Received in Advance**\$19,430**

This liability represents the total premiums received prior to year-end for policies with effective dates after December 31, 2014. The examiners reviewed 2014 premium and cash receipt records to verify the accuracy of this liability.

VI. CONCLUSION

Racine County Mutual Insurance Company is a town mutual insurer with an authorized territory of nine counties. The company has been in business over 142 years providing property and liability insurance to its policyholders.

The company reported admitted assets of \$3,483,363, liabilities of \$734,718, and surplus of \$2,748,645. During the period under examination, gross premium written increased 63% to \$1,180,326 and policies in force increased 78% to 1,599. The company has shown an underwriting loss in four of the past five years and a net income during the past five years. The loss ratio has averaged 41% since 2010, with its current level at 47%. The expense ratio has averaged 59% since 2010, with its current level at 54%.

The company was in compliance with all three prior examination recommendations. The current examination resulted in no adjustments to surplus and eight recommendations, which are summarized in the subsequent section.

VII. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 15 - Corporate Records—It is recommended that the company develop a system to track agents who are licensed to produce business to ensure that the company has an accurate and complete list of its agents.
2. Page 15 - Agency Operations—It is recommended that the company submit all required holding company filings for its wholly owned insurance agency in accordance with s. Ins 40.03 (2), Wis. Adm. Code.
3. Page 15 - Agency Operations—It is recommended that the company execute a cost-sharing agreement with its subsidiary and file the agreement with this office in accordance with s. Ins 40.04 (2) (d), Wis. Adm. Code.
4. Page 17 - Underwriting—It is recommended that the company review and update its underwriting guidelines to better reflect the current underwriting policies that are in place.
5. Page 17 - Underwriting—It is recommended that the company monitor its overdue accounts and cancel any policies that have lapsed 15 days past the due date in accordance with its underwriting guidelines.
6. Page 17 - Underwriting—It is recommended 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.
7. Page 20 - Cash and Invested Cash—It is recommended that the company establish an appropriate escheats procedure and remit all unclaimed funds over five years old to the Wisconsin Department of Revenue.
8. Page 21 - Premiums, Agents' Balances in Course of Collection—It is recommended that the company properly nonadmit any uncollected premiums that are over 90 days past due in accordance with the Town Mutual Annual Statement Instructions.

VIII. ACKNOWLEDGMENT

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

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

Respectfully submitted,

Levi Olson
Examiner-in-Charge