

Report  
of the  
Examination of  
Reedsburg-Westfield Mutual Insurance Company  
Reedsburg, Wisconsin  
As of December 31, 2013

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# State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

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

*Wisconsin.gov*

July 17, 2014

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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, 2013, of the affairs and financial condition of:

REEDSBURG-WESTFIELD MUTUAL INSURANCE COMPANY  
Reedsburg, Wisconsin

and the following report thereon is respectfully submitted:

## I. INTRODUCTION

The previous examination of Reedsburg-Westfield Mutual Insurance Company (the company or RWMIC) was made in 2009 as of December 31, 2008. The current examination covered the intervening time period ending December 31, 2013, 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.

The company was organized as a town mutual insurance company on March 4, 1876, under the provisions of the then existing Wisconsin Statutes. The original name of the company was the Reedsburg Farmers Mutual Fire Insurance Company. Reedsburg Farmers Mutual Fire Insurance Company merged with Westfield Mutual Farmers Insurance Company (also established in 1876) on January 1, 1981. After the merger the name of the company was changed to Reedsburg-Westfield Mutual 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:

Columbia	Richland
Juneau	Sauk
Monroe	Vernon

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 also charges a \$2 per payment fee for policies that are billed on a non-annual basis.

Business of the company is acquired through seven agents, four of whom are directors of the company. Agents are presently compensated for their services as follows:

<b>Type of Policy</b>	<b>Compensation</b>
All lines – new and renewal business	8%

Agents also receive \$18 per hour for loss adjusting, \$15 per hour for quoting insurance not acquired, policy service work, and educational meetings and seminars, plus \$100 per board of director's meeting, and \$.56 per mile for travel allowance. Non-director agents are encouraged to attend board meetings.

The company employs an inspector/adjuster who adjusts property claims such as lightning and wind. Agents are also authorized to adjust claims under \$5,000. All hail or fire claims, and certain other claims where additional professional expertise is required, are adjusted by an outside adjuster firm. All liability claims are adjusted by Wisconsin Adjusting Service Inc. The inspector/adjuster receives \$20 per hour (\$15 per hour for educational meetings and seminars) plus \$100 per quarterly board meeting and special meeting, \$50 per committee meeting and \$.56 per mile for travel allowance.

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 nine 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:

<b>Name</b>	<b>Principal Occupation</b>	<b>Residence</b>	<b>Expiry</b>
Fred Strutz*	Construction Foreman	LaValle, WI	2017
Charles Backeberg*	Transport – Sauk County Sheriff	Reedsburg, WI	2017
Denny Meyer	Farmer	Loganville, WI	2016
Paul Bodendein	Farmer	LaValle, WI	2016
Carl Mundth*	Co-Owner – Classic Cabinetry	Reedsburg, WI	2017
Stephen Muchow	Highway Commissioner	Reedsburg, WI	2015
Dennis Geffert	Farmer	Loganville, WI	2015
Dan Douglas	Mail Carrier	Reedsburg, WI	2015
Dennis Murray*	Program Specialist	Reedsburg, WI	2016

Directors who are also agents are identified with an asterisk.

Members of the board currently receive \$100 for each quarterly and special meeting attended, \$50 per committee meeting, and \$.56 per mile for travel expenses. They also receive \$15 per hour for attendance in educational meetings and seminars.

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:

<b>Name</b>	<b>Office</b>	<b>2013 Compensation</b>
Charles Backeberg	President	\$17,533
Fred Strutz	Vice President	8,488
Rita Strutz	Treasurer	20,049
Lisa Rockweiler	Secretary	45,239

Reported compensation is the total compensation paid by the insurer for the year and includes salary, commissions, director and meeting fees and mileage 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:

#### **Loss Committee – No Chair**

Charles Backeberg  
Carl Mundth  
Dennis Geffert  
Dan Douglas  
Jerry Dorow (Advisory capacity only as  
the company inspector/adjustor)

#### **Personnel Committee – No Chair**

Dennis Geffert  
Carl Mundth  
Denny Meyer

#### **Investment Committee – No Chair**

Dan Douglas  
Steve Muchow  
Denny Meyer  
Paul Bodendein  
Rita Strutz  
Lisa Rockweiler

#### **Rate Advisory Committee – No Chair**

Charles Backeberg  
Dennis Murray  
Dan Douglas  
Carl Mundth  
Paul Bodendein

## 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
2013	\$403,318	1,087	\$ 106,982	\$2,752,216	\$2,348,391
2012	408,004	1,067	200,474	2,542,133	2,160,234
2011	391,418	1,059	(159,396)	2,314,719	1,982,618
2010	399,553	1,044	58,202	2,551,566	2,180,801
2009	384,153	1,045	115,336	2,364,977	2,047,497
2008	396,102	1,048	5,193	2,226,982	1,897,530

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 Ratio Net	Writings Ratio Gross
2013	\$759,757	\$404,944	\$2,348,391	17%	32%
2012	719,644	428,605	2,160,234	20	33
2011	705,279	398,039	1,982,618	20	36
2010	699,598	389,894	2,180,801	18	32
2009	706,752	379,434	2,047,497	19	35
2008	708,870	396,102	1,897,530	21	37

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

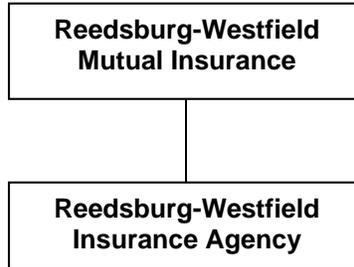
Year	Net Losses and LAE Incurred	Other Underwriting Expenses Incurred	Net Premiums Earned	Loss Ratio	Expense Ratio	Composite Ratio
2013	\$193,037	\$180,598	\$403,318	48%	45%	93%
2012	81,277	172,002	408,004	20	40	60
2011	426,096	162,722	391,418	109	41	150
2010	224,884	158,082	399,553	56	41	97
2009	115,407	153,363	384,153	30	40	70
2008	247,654	178,319	396,102	62	45	107

During the five-year period under examination, admitted assets increased 23.6% to \$2,752,216, surplus increased 23.7% to \$2,348,391 and net premiums written increased 2.2% to \$404,944. The company has shown an underwriting gain and net income in four of the previous five years. The loss ratio has averaged 53% since 2008, with its current level at 48%. The expense ratio has averaged 41% since 2008, with its current level at 45%.

## II. AFFILIATED COMPANIES

Reedsburg-Westfield Mutual Insurance Company is a member of a holding company system and is the ultimate parent. The organizational chart below depicts the relationship among the affiliates in the group. A brief description of the affiliate follows the organizational chart.

### Holding Company Chart As of December 31, 2013



#### Reedsburg-Westfield Insurance Agency

Reedsburg-Westfield Insurance Agency (RWIA or the agency) was created by Reedsburg-Westfield Mutual Insurance Company so it could offer automobile insurance through the agency as a means to retain its existing policyholders who were being drawn away by other insurers that are able to offer automobile-homeowner package discounts. The agency was initially capitalized at \$10,000 with RWMIC holding 100% of the outstanding shares.

The agency has a contract with 1<sup>st</sup> Auto & Casualty Insurance Company to offer auto insurance to RWMIC policyholders. As of December 31, 2013, the agency's unaudited financial statement reported assets of \$13,354, liabilities of \$0, and equity of \$13,354.

### 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, 2014
Termination provisions:	90-day notice

The coverages provided under this treaty are summarized as follows:

- |                      |   |
|----------------------|---|
| Type of contract:    | Class A Casualty Excess of Loss   |
| Lines reinsured:     | All business classified as casualty business  |
| Company's retention: | \$2,500 in respect to each and every loss occurrence  |
| Coverage:            | 100% of each and every loss in excess of \$2,500 occurring on the business covered by this contract, including loss adjustment expenses |
| Reinsurance premium: | 65% of the company's current net premiums written in respect to the business covered<br>Premium deposit: \$74,725                       |
- |                      |   |
|----------------------|---|
| Type of contract:    | Class B First Surplus   |
| Lines reinsured:     | All property business written by the company  |
| Company's retention: | \$300,000   |
| Coverage:            | Up to \$2,000,000 on a pro-rata basis   |
| Reinsurance premium: | Pro-rata share of all premiums and fees charged by the company corresponding to the amount of each risk ceded |
| Ceding commission:   | 15%, plus 15% profit commission   |
- |                      |  |
|----------------------|--|
| Type of contract:    | Class C-1 First Per Risk Excess of Loss  |
| Lines reinsured:     | All property business written by the company   |
| Company's retention: | \$45,000 per occurrence  |
| Coverage:            | 100% of any loss, including loss adjustment expense, in excess of \$45,000, subject to a limit of liability to the reinsurer of \$75,000 |

Reinsurance premium:	6% of the company's current net premiums written in respect to the business covered Premium deposit: \$29,181
4. Type of contract:	Class C-2 Second Per Risk Excess of Loss
Lines reinsured:	All property business written by the company
Company's retention:	\$120,000
Coverage:	100% of any loss, including loss adjustment expense, in excess of \$120,000, subject to a limit of liability to the reinsurer of \$180,000
Reinsurance premium:	3.75% of the company's current net premiums written in respect to the business covered Premium deposit: \$18,325
5. Type of contract:	Class D/E First Aggregate Excess of Loss
Lines reinsured:	All business written by the company
Company's retention:	80% of net written premium
Coverage:	100% of the amount by which the aggregate of the company's losses, including loss adjustment expenses exceed the retention with a limit of 60% of NWP (losses from 80% to 140% of NWP) Estimated attachment point is \$421,269
Reinsurance premium:	14% of the company's current net premiums written in respect to the business covered Premium deposit: \$73,722
6. Type of contract:	Class D/E Second Aggregate Excess of Loss
Lines reinsured:	All business written by the company
Company's retention:	140% of net written premium
Coverage:	100% of the amount by which the aggregate of the company's losses, including loss adjustment expenses exceed the retention
Reinsurance premium:	3% of the company's current net premiums written in respect to the business covered Premium deposit: \$15,798

#### **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, 2013, 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."

**Reedsburg-Westfield Mutual Insurance Company**  
**Statement of Assets and Liabilities**  
**As of December 31, 2013**

<b>Assets</b>	<b>Ledger</b>	<b>Nonledger</b>	<b>Not Admitted</b>	<b>Net Admitted</b>
Cash in checking	\$ 111,015	\$	\$	\$ 111,015
Cash deposited at interest	385,200			385,200
Bonds	1,086,927			1,086,927
Stocks and mutual fund investments	945,373			945,373
Real estate	95,068			95,068
Premiums, agents' balances and installments:				
In course of collection	4,058			4,058
Deferred and not yet due	100,320			100,320
Investment income accrued	0	13,365		13,365
Reinsurance recoverable on paid losses and LAE	10,890			10,890
Furniture and fixtures	<u>3,227</u>	<u>          </u>	<u>3,227</u>	<u>          </u>
<b>Totals</b>	<b><u>\$2,742,078</u></b>	<b><u>\$13,365</u></b>	<b><u>\$3,227</u></b>	<b><u>\$2,752,216</u></b>

**Liabilities and Surplus**

Net unpaid losses	\$ 16,500
Unpaid loss adjustment expenses	250
Commissions payable	8,026
Fire department dues payable	276
Federal income taxes payable	10,045
Unearned premiums	286,611
Reinsurance payable	60,334
Payroll taxes payable (employer's portion)	2,347
Premiums received in advance	<u>19,436</u>
<b>Total liabilities</b>	<b>403,825</b>
Policyholders' surplus	<u>2,348,391</u>
<b>Total Liabilities and Surplus</b>	<b><u>\$2,752,216</u></b>

**Reedsburg-Westfield Mutual Insurance Company**  
**Statement of Operations**  
**For the Year 2013**

Net premiums and assessments earned		\$403,318
Deduct:		
Net losses incurred	\$171,049	
Net loss adjustment expenses incurred	21,988	
Net other underwriting expenses incurred	<u>180,598</u>	
Total losses and expenses incurred		<u>373,635</u>
Net underwriting gain		29,683
Net investment income:		
Net investment income earned	54,665	
Net realized capital gains (losses)	<u>36,550</u>	
Total investment gain (loss)		91,215
Other income		<u>3,584</u>
Net income before federal income taxes		124,482
Federal income taxes incurred		<u>17,500</u>
Net Income		<u>\$106,982</u>

**Reedsburg-Westfield Mutual Insurance Company  
Reconciliation and Analysis of Surplus as Regards Policyholders  
For the Five-Year Period Ending December 31, 2013**

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:

	<b>2013</b>	<b>2012</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>
Surplus, beginning of year	\$2,160,234	\$1,982,618	\$2,180,801	\$2,047,497	\$1,897,530
Net income	106,982	200,474	(159,396)	58,202	115,336
Net unrealized capital gain or (loss)	79,960	(21,488)	(41,303)	73,968	31,360
Change in nonadmitted assets	<u>1,215</u>	<u>(1,370)</u>	<u>2,516</u>	<u>1,134</u>	<u>3,271</u>
Surplus, End of Year	<u>\$2,348,391</u>	<u>\$2,160,234</u>	<u>\$1,982,618</u>	<u>\$2,180,801</u>	<u>\$2,047,497</u>

**Reconciliation of Policyholders' Surplus**

The examination resulted in no adjustments to policyholders' surplus. The amount reported by the company as of December 31, 2013, 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. Premiums, Agents' Balances and Installments in Course of Collection—It is recommended that the company nonadmit receivables greater than 90 days in accordance with the Town Mutual Annual Statement Instructions.

Action—Compliance

2. EDP Equipment—It is recommended that the company depreciate its EDP equipment in accordance with SSAP 16.

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.

### **Agent Agreements**

Agents sign an Agent Agreement which lists certain responsibilities and compensation items related to the position. It was noted that the Agent Agreement does not contain a statement indicating that the company has the right of first refusal to negotiate a transfer of in-force business prior to any other parties in the event of the agent's retirement or departure. The right of first refusal would allow the company the right to retain the agent's book of business by matching the best offer made to this agent by outside parties. Without such a provision in the Agent Agreement, the company could lose a significant portion of its book of business in the event of the agent's retirement or departure. It is suggested that the company update their Agent Agreement to include the right of first refusal.

## 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	\$ 125,000
Worker's compensation:	
Employee injury	Statutory
Employee liability:	
Each accident or disease	100,000
Each employee	100,000
Policy limit	500,000
Insurance agents professional liability	2,000,000
Company professional and D&O liability	2,000,000
Commercial property	
Commercial structures	130,000
Commercial property	20,000
Commercial liability	
Occurrence limit	1,000,000
Medical limit each person	5,000
General aggregate limit	2,000,000
Fire legal liability	100,000

## 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 policy for both new and renewal business. Inspections of newly insured properties are done by the selling agents. Company policy requires an inspection by the company inspector/adjustor prior to the three-year policy renewal date. Policies are flagged 90 days before renewal to allow time for an inspection and to send 60-day nonrenewal letters if required. The exam team noted that the company did not follow its inspection policy for renewal policies in 10 of 40 policies tested. It is recommended that the company follow its policy of inspecting all property risks every three years. Ongoing inspections allow the company to evaluate changing property conditions, property values, and any property additions.

As required by s. Ins 13.04, Wis. Adm. Code, each policyholder must sign a statement that he/she understands that the company is an assessable mutual and that the

policyholder might be required to pay a share of legal assessments. During a review of a sample of 40 policies the examination team discovered that 2 policy files did not include a signed undertaking. It is recommended that the company take action to ensure that all policy files contain a signed undertaking from the policyholder.

### **Agency Operations**

The company has established Reedsburg-Westfield Insurance Agency, which was described in the section of this report entitled "Affiliated Companies." In accordance with s. 617.11, Wis. Stat., and s. Ins 40.03, Wis. Adm. Code, all insurers that are members of an insurance holding company system are required to report to OCI the information concerning the insurer and its affiliates, including the annual registration statement (Form B), the summary registration statement (Form C), and any other filings which may be required as the agency increases operations. The company has not properly filed all required holding company filings for the agency since February 2, 2010, when Forms B and C were filed for the year ending December 31, 2009. It is recommended that the company make all required holding company filings for its wholly owned insurance agency for all future years in accordance with s. Ins 40.03, Wis. Adm. Code.

The company has an administrative services agreement in force with the agency. The agreement was last revised in 2004. The revised agreement states that the company is to provide the agency certain administrative services. However, the agency is not required to reimburse the company for these services due to the immateriality of the costs of the services. A copy of the revised agreement was never filed with the Office of the Commissioner of Insurance (OCI), which is contrary to the requirement of s. Ins 40.04 (2) (d), Wis. Adm. Code. Although OCI did not evaluate the terms of the agreement, it seems plausible that in 2004 the costs of the services provided to the agency were negligible. However, after entering into this agreement in 2004, the company has never evaluated the terms to determine whether the terms were still reasonable and provided fair compensation to the company for the services provided.

In 2013 the company did provide certain administrative services to the agency but neither estimated the costs of these services nor received any reimbursement from the

agency. Upon the examiners' request, management estimated that the costs of the services currently provided to the agency were approximately \$500 a year. It is recommended that the company review its agreement with the agency on a periodic basis to determine whether the terms are fair and reasonable, amend the agreement should any changes be needed, and file the agreement with OCI in accordance with s. Ins 40.04 (2) (d), Wis. Adm. Code.

### **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, 2013.

It was noted that the company voids and reissues checks that have been outstanding for more than six months. Checks reissued and never cashed are eventually written off by the company. According to s. 177.02 (1), Wis. Stat., all intangible property that is issued or owing in the ordinary course of a "holder's" business and that has remained unclaimed by the "owner" for more than five years after it became distributable is presumed abandoned. Abandoned property is to be reported to the State Treasurer's Office before November 1 of each year for the

preceding calendar year. The company paid policyholder claims as part of its ordinary course of business, with the intent that the policyholders were going to cash the checks. By voiding unclaimed checks and reverting funds to the company the company violated s. 177.03, Wis. Stat., which states that abandoned property is subject to the custody of this state as unclaimed property. It is recommended that the company comply with the determination and reporting of unclaimed property in accordance with ch. 177, Wis. Stat.

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 computer daily and the backed-up data is kept on-site in a fireproof safe. They also back up the computer weekly and the backed-up data is kept off-site. Virus protection software is installed on all office computers.

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. The examination determined that the level of documentation contained in the manuals was reasonable.

### **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	\$ 703,825
2. Liabilities plus 33% of gross premiums written	654,545
3. Liabilities plus 50% of net premiums written	606,297
4. Amount required (greater of 1, 2, or 3)	703,825
5. Amount of Type 1 investments as of December 31, 2013	<u>1,650,169</u>
6. Excess or (deficiency)	<u>\$ 946,344</u>

The company has sufficient Type 1 investments.

## ASSETS

**Cash and Invested Cash** **\$496,215**

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

Cash deposited in banks—checking account	\$111,015
Cash deposited in banks at interest	<u>385,200</u>
Total	<u>\$496,215</u>

Cash deposited in banks subject to the company's check and withdrawal consists of one account maintained in one 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 five deposits in three depositories. Deposits were verified by obtaining confirmations directly from the depositories and reconciling the amounts shown thereon to company records. Interest received during the year 2013 totaled \$917 and was verified to company cash records. Rates of interest earned on cash deposits ranged from 0.07% to 0.401%. Accrued interest on cash deposits totaled \$220 at year-end.

**Book Value of Bonds** **\$1,086,927**

The above asset consists of the aggregate book value of bonds held by the company as of December 31, 2013. Bonds owned by the company are held by the custodial bank under a custodial safekeeping agreement.

Bonds were traced to the company's investment custodial account 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 2013 on bonds amounted to \$39,719 and was traced to cash receipts records. Accrued interest of \$13,145 at December 31, 2013, was checked and allowed as a nonledger asset.

**Stocks and Mutual Fund Investments****\$945,373**

The above asset consists of the aggregate market value of stocks and mutual funds held by the company as of December 31, 2013. Stocks owned by the company are located in the company's safety deposit box at a local bank or are held by the custodial bank under a custodial safekeeping agreement.

Stock certificates held by the company were verified by tracing them to the physical certificates. Per share values of stock certificates held by the company were verified through review of issuer correspondence. Stocks held by the custodian were verified by obtaining the company's confirmations and broker statements. 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 2013 on stocks and mutual funds amounted to \$34,514 and were traced to cash receipts records. There were no accrued dividends at December 31, 2013.

**Book Value of Real Estate****\$95,068**

The above amount represents the company's investment in real estate, net of depreciation, as of December 31, 2013. The company's real estate holdings consisted of the company's home office building.

The required documents supporting the validity of this asset were reviewed and were in order. Adequate hazard insurance was carried on the real estate and contents as noted under the caption "Fidelity Bond and Other Insurance." The company's investment in real estate and related items was in conformance with the Wisconsin Statutes and the rules of the Commissioner of Insurance as regards investments made by town mutual insurers. Real estate depreciation is calculated using the straight-line method.

**Premiums, Agents' Balances in Course of Collection****\$4,058**

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 and analytical review procedures verified the accuracy of this asset.

**Premiums Deferred and Not Yet Due** **\$100,320**

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** **\$13,365**

Interest due and accrued on the various assets of the company at December 31, 2013, consists of the following:

Cash deposited at interest	\$ 220
Bonds	<u>13,145</u>
Total	<u>\$13,365</u>

**Reinsurance Recoverable on Paid Losses and LAE** **\$10,890**

The above asset represents recoveries due to the company from reinsurance on losses and loss adjusting expenses which were paid on or prior to December 31, 2013. A review of year-end accountings with the reinsurer verified the above asset.

**Furniture and Fixtures** **\$0**

This asset consists of \$ 3,227 of office furniture and equipment owned by the company at December 31, 2013. 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** **\$16,500**

This liability represents losses incurred on or prior to December 31, 2013, 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, 2013, with incurred dates in 2013 and prior years. To the actual paid loss figure was added an estimated amount for 2013 and prior losses remaining unpaid at the time of the examination. The examiners' development of unpaid losses is compared with the amount estimated by the company in the following schedule.

	<b>Company Estimate</b>	<b>Examiners' Development</b>	<b>Difference</b>
Incurred but unpaid losses	\$180,987	\$156,075	\$24,912
Less: Reinsurance recoverable on unpaid losses	<u>164,487</u>	<u>149,711</u>	<u>14,776</u>
Net Unpaid Losses	<u>\$ 16,500</u>	<u>\$ 6,364</u>	<u>\$10,136</u>

The above difference of \$10,136 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** **\$250**

This liability represents the company's estimate of amounts necessary to settle losses which were incurred prior to December 31, 2013, but which remained unpaid as of year-end. The methodology used by the company in establishing this liability is an estimate based on a review of open claims. The examiners calculated the ratio of paid loss adjustment expenses to

paid losses for the past five years. Based upon those ratios the unpaid loss adjustment expenses amount estimated by the company is reasonable.

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** **\$8,026**

This liability represents the commissions payable to agents as of December 31, 2013. The examiners reviewed the company's commission calculation and found the liability to be reasonably stated.

**Fire Department Dues Payable** **\$276**

This liability represents the fire department dues payable to the state of Wisconsin as of December 31, 2013.

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.

**Federal Income Taxes Payable** **\$10,045**

This liability represents the balance payable at year-end for federal income taxes incurred prior to December 31, 2013.

The examiners reviewed the company's tax calculation and verified amounts paid to cash disbursement records to verify the accuracy of this liability.

**Unearned Premiums** **\$286,611**

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** **\$60,334**

This liability consists of amounts due to the company's reinsurer at December 31, 2013, relating to transactions which occurred on or prior to that date. Subsequent payments and confirmations with the reinsurer verified these amounts.

Class A Nonproperty	\$ 9,533
Class B1 – First Surplus (Net of Commission)	11,307
Class C1 Excess of Loss	3,806
Class C2 Excess of Loss	2,376
Class D1 Stop Loss	9,603
Class D2 Stop Loss	2,054
Deferred Premium (Net of Commissions)	<u>21,655</u>
	<u>\$60,334</u>

**Payroll Taxes Payable**

**\$2,347**

This liability represents the company's portion of payroll taxes incurred prior to December 31, 2013, which had not yet been paid. Supporting records and subsequent cash disbursements verified this item.

**Premiums Received in Advance**

**\$19,436**

This liability represents the total premiums received prior to year-end for policies with effective dates after December 31, 2013. The examiners reviewed 2013 premium and cash receipt records to verify the accuracy of this liability.

## **VI. CONCLUSION**

Reedsburg-Westfield Mutual Insurance Company is a town mutual insurer with an authorized territory of six counties. The company has been in business over 138 years providing property and liability insurance to its policyholders.

The company reported admitted assets of \$2,752,216, liabilities of \$403,825, and surplus of \$2,348,391. The company has shown an underwriting gain and net income in four of the previous five years. The loss ratio has averaged 53% since 2008, with its current level at 48%. The expense ratio has averaged 41% since 2008, with its current level at 45%.

The company was in compliance with both prior examination recommendations. As a result of the current examination, there were five recommendations and one suggestion and no adjustments to surplus. Recommendations are summarized in the subsequent section.

## VII. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 14 - Agent Agreements—It is suggested that the company update their Agent Agreement to include the right of first refusal.
2. Page 15 - Underwriting—It is recommended that the company follow its policy of inspecting all property risks every three years.
3. Page 16 - Underwriting—It is recommended that the company take action to ensure that all policy files contain a signed undertaking from the policyholder.
4. Page 16 - Agency Operations—It is recommended that the company make all required holding company filings for its wholly owned insurance agency for all future years in accordance with s. Ins 40.03, Wis. Adm. Code.
5. Page 17 - Agency Operations—It is recommended that the company review its agreement with the agency on a periodic basis to determine whether the terms are fair and reasonable, amend the agreement should any changes be needed, and file the agreement with OCI in accordance with s. Ins 40.04 (2) (d), Wis. Adm. Code.
6. Page 18 - Accounts and Records—It is recommended that the company comply with the determination and reporting of unclaimed property in accordance with ch. 177, Wis. Stat

### **VIII. ACKNOWLEDGMENT**

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

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

Respectfully submitted,

James A. Vanden Branden  
Examiner-in-Charge