

Report of the Examination of  
Tri-County Mutual Town Insurance Company  
Iron River, Wisconsin  
As of December 31, 2018

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# State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

*Tony Evers, Governor*  
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September 4, 2019

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

Commissioner:

In accordance with your instructions, an examination has been performed as of  
December 31, 2018, of the affairs and financial condition of:

TRI-COUNTY MUTUAL TOWN INSURANCE COMPANY  
Iron River, Wisconsin

and the following report thereon is respectfully submitted:

## I. INTRODUCTION

The previous examination of Tri-County Mutual Town Insurance Company (the company) was made in 2011 as of December 31, 2010. The current examination covered the five-year period beginning January 1, 2014, and ending December 31, 2018, 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 January 12, 1909, under the provisions of the then existing Wisconsin Statutes. The original name of the company was the Farmers Mutual Town Insurance Company. Subsequent amendments to the company's articles and bylaws changed the company's name to that presently used.

During the period under examination, there were no amendments to the articles of incorporation and no amendments to the bylaws.

The company is currently licensed to write property, including windstorm and hail, and nonproperty insurance. The company is currently licensed to write business in the following counties:

Ashland	Barron
Bayfield	Burnett
Douglas	Iron
Sawyer	Washburn

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 and three years with premiums payable on the advance premium basis. The company also charges a policy fee equal to \$40 and a quarterly or semiannual installment fee of \$4 per installment.

Business of the company is acquired through 38 agents, none 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 of business	15 %

Agents do not have authority to adjust losses. The general manager has the authority to adjust losses up to \$10,000. Losses in excess of this amount must be discussed with at least one member of the adjusting committee and an independent adjusting service is used by the company. The adjusting fee paid to the general manager is \$95 for each loss adjusted plus the IRS allowable mileage 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 seven members divided into three classes. One class is elected at each annual meeting for a term of three years. Vacancies on the board may be filled by the directors for the interim to the next annual meeting when a director shall be chosen for the unexpired term.

The current board of directors consists of the following policyholders of the company:

<b>Name</b>	<b>Principal Occupation</b>	<b>Residence</b>	<b>Expiry</b>
Debra Larson	Insurance Agent	Ashland, WI	2021
Willard Ogren	Banker	Iron River, WI	2020
Martin Skaj	Retired	Mason, WI	2019
Elvera Renman	Retired	South Range, WI	2020
Mark Pihle	Farmer	Iron River, WI	2019
John Anttila	Retired	Maple, WI	2020
Gary Peterson	Farmer	Poplar, WI	2021

No directors are agents for the company.

Members of the board currently receive \$149 for each meeting attended and \$0.54 per mile (or the current IRS allowable rate) 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:

<b>Name</b>	<b>Office</b>	<b>2018 Compensation<sup>^</sup></b>
Debra Larson	President	\$1,421
Martin Skaj	Vice-President	596
Willard Ogren	Secretary/Treasurer	596
Scott Ogren*	Manager	596

\* Scott Ogren is not a board member but is an employee of and receives compensation from the Security State Agency, Inc.

<sup>^</sup> Reported compensation is the total compensation paid by the insurer for the year and includes salary and director fees. The president is the only board member who receives a salary, which was \$825 for the year shown.

The company has formally contracted with the Security State Insurance Agency, Inc., an affiliate of the Security State Bank, for the provision of management services since 1984. All day-to-day operations of the company are handled by officers and employees of the Security State Agency, Inc. Day-to-day administration of the company is managed by Scott Ogren. He is also an agent for the company. As of the date of this examination, the company paid the Security State Agency, Inc., a monthly management fee of \$5,860 plus monthly rent of \$1,450. The agreement runs through July 1, 2020. Commissions paid to the agency in 2018 were \$25,707. Security State Agency, Inc., produced 60% of the company's business in 2018.

### **Committees of the Board**

The company's bylaws allow for the formation of certain committees by the board of directors. The committees at the time of the examination are listed below:

#### **Adjusting Committee**

Debra Larson, Chair  
Mark Pihle  
Gary Peterson  
Willard Ogren

The full board acts as the adjusting committee for the company. All large claims are discussed during board meetings; however, the company elects a subset of directors to be members of a separate adjusting committee to review large claims that occurred between board meetings. Direct contact with at least one member of the adjustment committee is required on all losses over \$10,000.

## Growth of Company

The growth of the company from 2013 to 2018, as compiled from its filed annual statements, was as follows:

Year	Net Premiums Earned	Policies In Force	Net Income	Admitted Assets	Policyholders' Surplus
2018	\$197,764	492	\$79,391	\$1,120,855	\$978,977
2017	193,215	506	65,202	1,038,085	895,477
2016	214,049	520	27,728	939,256	795,488
2015	205,060	554	7,086	875,547	722,943
2014	195,420	557	12,141	833,924	698,721
2013	193,174	570	(5,851)	782,661	644,565

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	Ratios Gross
2018	\$330,864	\$198,472	\$978,977	20%	34%
2017	322,656	190,932	895,477	21	36
2016	334,863	214,529	795,488	27	42
2015	342,577	212,074	722,943	29	47
2014	333,566	202,399	698,721	29	48
2013	331,828	193,688	644,565	30	51

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
2018	\$ 17,307	\$149,125	\$197,764	9%	75%	84%
2017	21,852	147,130	193,215	11	76	87
2016	79,953	148,236	214,049	37	69	108
2015	97,539	140,050	205,060	48	68	116
2014	84,926	132,445	195,420	43	68	111
2013	108,544	123,076	193,174	56	64	120

Over the last five years, the company has had consistent results. Surplus has increased 52% to \$978,977, and admitted assets increased 43% to \$1,120,855. The number of policyholders decreased 14%, or 78 members, to 492 policyholders, and gross premiums decreased by less than 1%. The company reported underwriting gains in two out of the last five years and net income for each year under examination. The composite ratio was 84% for 2018 and the five-year average was 101%.

## II. 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, 2019
Termination provisions:	Either party may terminate this Contract of Reinsurance as of 12:01 a.m. Central Standard Time on any January 1 <sup>st</sup> by giving to the other party at least ninety (90) days advance notice in writing

The coverages provided under this treaty are summarized as follows:

- |                      |  |
|----------------------|--|
| Type of contract:    | Class A: Casualty Quota Share Reinsurance                      |
| Lines reinsured:     | Liability  |
| Company's retention: | 0%   |
| Coverage:            | 100% of each and every loss, including loss adjustment expense |
| Reinsurance premium: | 100% of premium written<br>Annual deposit premium: \$37,000    |
| Ceding commission:   | 20% of premium paid  |
- |                      |  |
|----------------------|--|
| Type of contract:    | Class B: First Surplus                                   |
| Lines reinsured:     | Property   |
| Company's retention: | \$200,000  |
| Coverage:            | \$2,000,000 excess of \$200,000                          |
| Reinsurance premium: | Pro rata portion of premium<br>Deposit premium: \$30,403 |
| Ceding commission:   | 25% of premium paid<br>15% profit commission             |
- |                      |   |
|----------------------|---|
| Type of contract:    | Class C1: First Per Risk Excess of Loss |
| Lines reinsured:     | Property                                |
| Company's retention: | \$35,000 per risk per loss occurrence   |

- Coverage: 100% of each and every loss, including loss adjustment expense, in excess of retention of \$35,000 per risk, in respect to each and every risk resulting from one loss occurrence up to \$45,000
- Reinsurance premium: 11.05% of written premium  
Annual deposit premium: \$29,238
4. Type of contract: Class C2: Second Per Risk Excess of Loss
- Lines reinsured: Property
- Company's retention: \$80,000 per risk per loss occurrence
- Coverage: 100% of each and every loss, including loss adjustment expense, in excess of retention of \$80,000 per risk, in respect to each and every risk resulting from one loss occurrence up to \$120,000
- Reinsurance premium: 4% of written premium  
Annual deposit premium: \$10,584
5. Type of contract: Class D: First Aggregate Excess of Loss
- Lines reinsured: All business written by the company
- Coverage: 100% of all losses exceeding the attachment point
- Attachment Point: 70% of Net Premiums Written  
Est. attachment point: \$185,218
- Reinsurance premium: 7% of written premium  
Annual deposit premium: \$18,522

### **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, 2018, annual statement.

Adjustments made as a result of the examination are noted at the end of this section in the area captioned "Reconciliation of Policyholders' Surplus."

**Tri-County Mutual Town Insurance Company**  
**Statement of Assets and Liabilities**  
**As of December 31, 2018**

<b>Assets</b>	<b>Ledger</b>	<b>Nonledger</b>	<b>Not Admitted</b>	<b>Net Admitted</b>
Cash deposited in checking	\$ 32,227	\$	\$	\$ 32,227
Cash deposited at interest	759,475			759,475
Stocks and mutual fund investments	267,167			267,167
Premiums, agents' balances and installments:				
In course of collection	26,075			26,075
Deferred and not yet due	21,744			21,744
Investment income accrued		905		905
Electronic data processing equipment	138			138
Reinsurance premium recoverable	10,514			10,514
Other expense related assets:				
Reinsurance commission receivable	2,610			2,610
Other nonadmitted assets:				
Prepaid Insurance	<u>1,748</u>	<u>      </u>	<u>1,748</u>	<u>      </u>
<b>Totals</b>	<b><u>\$ 1,121,698</u></b>	<b><u>\$ 905</u></b>	<b><u>\$ 1,748</u></b>	<b><u>\$ 1,120,855</u></b>

**Tri-County Mutual Town Insurance Company**  
**Statement of Assets and Liabilities (cont.)**  
**As of December 31, 2018**

**Liabilities and Surplus**

Net unpaid losses	\$ 8,799
Loss adjustment expenses unpaid	1,048
Fire department dues payable	22
Unearned premiums	131,961
Other liabilities:	
Expense related:	
Accounts payable	<u>48</u>
Total Liabilities	141,878
Policyholders' Surplus	<u>978,977</u>
Total Liabilities and Surplus	<u>\$1,120,855</u>

**Tri-County Mutual Town Insurance Company**  
**Statement of Operations**  
**For the Year 2018**

Net premiums and assessments earned		\$197,764
Deduct:		
Net losses incurred	\$ 7,940	
Net loss adjustment expenses incurred	9,367	
Net other underwriting expenses incurred	<u>149,125</u>	
Total losses and expenses incurred		<u>166,432</u>
Net underwriting gain (loss)		31,332
Net investment income:		
Net investment income earned	<u>6,713</u>	
Total investment gain (loss)		6,713
Other income (expense):		
Administrative Fees	20,683	
Wood Stove Fees	<u>14,663</u>	
Total other income (expense)		<u>35,346</u>
Net Income (Loss)		<u>\$ 73,391</u>

**Tri-County Mutual Town Insurance Company**  
**Reconciliation and Analysis of Surplus as Regards Policyholders**  
**For the Five-Year Period Ending December 31, 2018**

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

	2018	2017	2016	2015	2014
Surplus, beginning of year	\$895,477	\$795,488	\$722,943	\$698,721	\$644,565
Net income (loss)	73,391	65,202	27,728	7,086	12,141
Net unrealized capital gain or (loss)	9,097	33,582	43,517	16,147	47,301
Change in non-admitted assets	<u>1,012</u>	<u>1,205</u>	<u>1,300</u>	<u>989</u>	<u>(5,286)</u>
Surplus, End of Year	<u>\$978,977</u>	<u>\$895,477</u>	<u>\$795,488</u>	<u>\$722,943</u>	<u>\$698,721</u>

**Reconciliation of Policyholders' Surplus**

The examination resulted in no adjustments to policyholders' surplus. The amount reported by the company as of December 31, 2018 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. Board of Directors—It is recommended that the company establish a policy requiring each director to have a separate policy with the company.

Action—Compliance.

2. Accounts and Records—It is recommended that the company comply with the determination and reporting of unclaimed property in accordance with s. 177, Wis. Stat.

Action—Compliance.

3. Accounts and Records—It is recommended that the company, given the small number of employees involved, have a board member review the check register and bank reconciliation at each board meeting so as to add a level of oversight to the check/cash accounting function in accordance with s. Ins 13.05 (4), Wis. Adm. Code.

Action—Compliance.

4. Accounts and Records—It is recommended that the company require two signers for checks whose amounts meet a threshold established by its board of directors, pursuant to s. Ins. 13.05 (4) (b), Wis. Adm. Code. Note that this procedure is recommended since it was found during the examination process that the company utilizes a signature stamp for one of its signers that is not properly safeguarded.

Action—Compliance.

5. Accounts and Records—It is recommended that the company require the agency that performs its day-to-day operations to properly safeguard its blank checks and signature stamp utilized by one of the authorized signers on the account.

Action—Compliance.

6. Affiliated Companies—It is recommended that the company notify the Office of the Commissioner of Insurance (OCI) 30 days prior to the effective date of any contracts with affiliates or amendments thereof, pursuant to s. Ins. 40.04 (2), Wis. Adm. Code.

Action—Compliance.

7. Affiliated Companies—It is recommended that the company execute an equipment use and services agreement with the Security State Bank covering use of the bank's copy machine and faxes as well as postage services which would need to be approved by the company's board of directors.

Action—Compliance.

8. Premium Deferred and Not Yet Due—It is recommended that the company report deferred premiums in accordance with the Town Mutual Annual Statement Instructions.

Action—Compliance.

9. Other Assets – Prepaid Insurance—It is recommended that the company properly nonadmit any prepaid insurance premium in its annual statement in future years in accordance with the Town Mutual Annual Statement Instructions.

Action—Compliance.

10. Net Unpaid Losses—It is recommended that the company institute a policy of establishing a reserve for loss for all claims that are filed with the company, in compliance with s. Ins. 13.05 (3)(f), Wis. Adm. Code.

Action—Compliance.

## **Current Examination Results**

### **Board of Directors**

During 2014, a board member was replaced with a new member. The new member was properly appointed as a replacement at the September 16, 2014, meeting for the remainder of the old member's term, which was to expire in 2017, but the new member was not confirmed at the next annual meeting of policyholders on June 22, 2015, as required in Article III of the company's articles of incorporation. Instead, the new member served the remaining term and then was properly approved for a new term at the Annual Meeting held on June 6, 2017. It is recommended that the company adhere to its articles of incorporation as they relate to the replacement of a director during the elected term.

### **Corporate Records**

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

Biographical data relating to company officers and directors have been reported in accordance with the provisions of s. Ins 6.52, Wis. Adm. Code.

The company has executed formal written agreements with its agents. The contracts include language indicating the agent will represent the company's interests "in good faith."

### **Conflict of Interest**

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

<b>Type of Coverage</b>	<b>Coverage Limits</b>
Fidelity bond	\$50,000 per person
Worker's Compensation:	
Employee injury	Statutory
Employee liability:	
Each accident	100,000
Each employee	100,000
Policy limit	500,000
Commercial property and liability:	1,000,000
General Aggregate	
Products Completed Agg. Limit	1,000,000
Each Occurrence Limit	1,000,000
Damage to Premises Rented	50,000
Medical Expense Limit	5,000
Hired Auto & Non-Owned Auto	1,000,000
Professional Liability	
D & O Liability	1,000,000

## **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 an inspection procedure for both new and renewal business. All new applications must be inspected by the agent. The agent must visit the premises and provide pictures and a separate questionnaire for wood stoves. Renewal business is inspected on an as needed basis by a board member who is independent of the risk under consideration and review, or by a third-party inspection company when necessary.

## **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. The company requires that at least one member of the adjusting committee review all losses above \$10,000 before the entire board reviews all claims at its regular 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, 2018.

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.

The company started using new software in June 2019. With the new software, the system backs up automatically upon any new entry into the system, and the backed-up data is kept off-site.

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 system, 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.

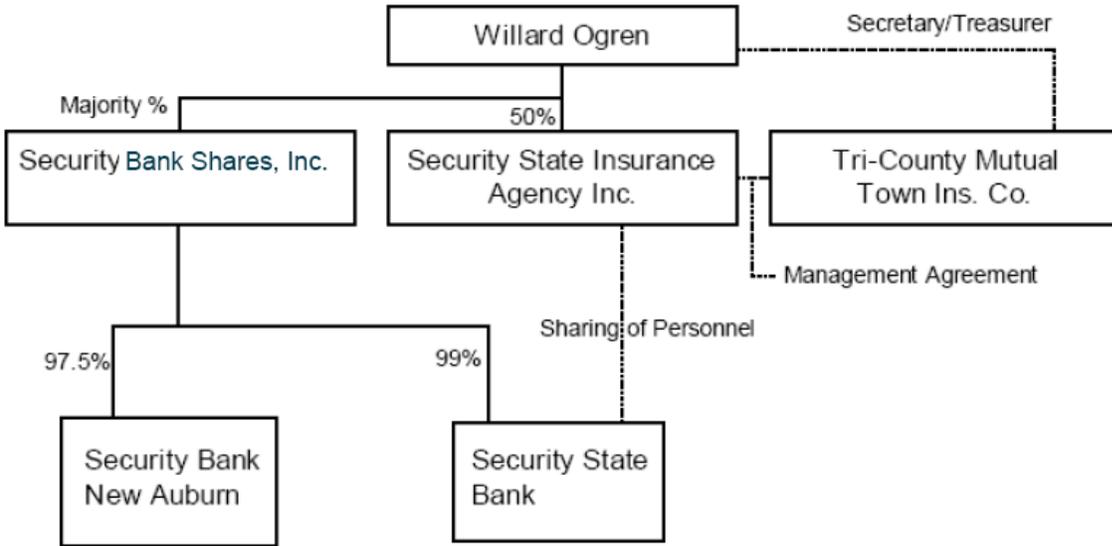
### **Affiliated Companies**

Tri-County Mutual Town Insurance Company is a member of an insurance holding company system as defined by s. Ins. 40.01, Wis. Adm. Code, the principal controlling person of which is Willard Ogren, secretary/treasurer of the company. Pursuant to s. 600.03 (1), Wis. Stat., an "affiliate of a person means any other person who controls, is controlled by, or is under common control with, the first person. A corporation is an affiliate of another corporation, regardless of ownership, if substantially the same group of persons manages the two corporations." Pursuant to s. 600.03 (13), Wis. Stat., "control means the possession, directly or indirectly, of the power to direct or cause the direction of management and policies of a person, whether through ownership of voting securities, by contract, by company management or otherwise."

Considering the statutes cited, the company is affiliated with certain companies under the direction of its secretary-treasurer, Willard Ogren. Willard Ogren owns 50% of the Security State Insurance Agency, Inc. This agency has a contract to manage the company's day-to-day operations for a flat monthly fee, as was previously disclosed in this report. This agency also writes business for the company. Security State Insurance Agency, Inc., produces approximately 60% of the company's business.

Willard Ogren is president and majority stockholder of Security Bank Shares, Inc., a bank holding company domiciled in Wisconsin. Security Bank Shares, Inc., reported assets of \$33,295,000, liabilities of \$531,000, and stockholder's equity of \$32,764,000 as of December 31, 2018. Net income of \$2,356,000 was reported for this same fiscal period. Security Bank Shares, Inc., is the majority stockholder of Security State Bank and Security Bank, New Auburn. As of December 31, 2018, approximately 39% of the company's admitted assets consisted of financial products of Security State Bank and Security Bank, New Auburn. In addition, the company's manager, employed by Security State Insurance Agency, Inc., makes use of Security State Bank's equipment in order to conduct the company's operations. Affiliation with these corporate entities is

through the common management control of Willard Ogren, augmented by financial and operational reliance on Security State Bank. The following chart depicts the organizational structure of the holding company:



**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 two 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	\$441,878
2. Liabilities plus 33% of gross premiums written	251,063
3. Liabilities plus 50% of net premiums written	241,114
4. Amount required (greater of 1, 2, or 3)	441,878
5. Amount of Type 1 investments as of 12/31/2018	<u>791,702</u>
6. Excess or (deficiency)	<u>\$349,824</u>

The company has sufficient Type 1 investments.

## ASSETS

**Cash and Invested Cash** **\$791,702**

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

Cash deposited in banks—checking accounts	\$ 32,227
Cash deposited in banks at interest	<u>759,475</u>
Total	<u>\$791,702</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 auditor and reconciling the amounts shown thereon to company records.

Cash deposited in banks represents the aggregate of thirteen deposits in four depositories. Deposits were verified by obtaining confirmations from the auditor and by actual count and inspection of certificates and/or passbooks. Interest received during the year 2018 totaled \$6,024 and was verified to company cash records. Rates of interest earned on cash deposits ranged from 0.4% to 2.427%. Accrued interest on cash deposits totaled \$905 at year-end.

**Stocks and Mutual Fund Investments** **\$267,167**

The above asset consists of the aggregate market value of stocks held by the company as of December 31, 2018. Stocks owned by the company are located in the company's safe deposit box.

Stock certificates were physically examined by the examiners. 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 2018 on stocks and mutual funds amounted to \$2,353 and were traced to cash receipts records. There were no accrued dividends at December 31, 2018.

**Premiums, Agents' Balances in Course of Collection** **\$26,075**

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 individual agent's accounts verified the accuracy of this asset.

**Premiums Deferred and Not Yet Due** **\$21,744**

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** **\$905**

Interest due and accrued on the various assets of the company at December 31, 2018, relates to Cash Deposited at Interest.

**Electronic Data Processing Equipment** **\$138**

The above balance consists of computer hardware and operating system software, net of depreciation as of December 31, 2018. A review of the EDP equipment depreciation calculation verified the balance. Non-operating system software was properly nonadmitted.

**Reinsurance Premium Recoverable** **\$10,514**

The asset represents the amount of reinsurance premium that the company had overpaid as of December 31, 2018. The examiners reviewed and verified the balance.

**Reinsurance Commission Receivable** **\$2,610**

The above asset represents the amount of reinsurance commissions that the company expected to receive as of December 31, 2018, under its contract with Wisconsin Reinsurance Corporation. A review of the terms of the reinsurance agreement and year-end accountings with the reinsurer verified the above asset.

## LIABILITIES AND SURPLUS

**Net Unpaid Losses** **\$8,799**

This liability represents losses incurred on or prior to December 31, 2018, 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, 2018, with incurred dates in 2018 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	\$33,799	\$799	\$33,000
Less: Reinsurance recoverable on unpaid losses	<u>25,000</u>		<u>25,000</u>
Net Unpaid Losses	<u>\$ 8,799</u>	<u>\$799</u>	<u>\$ 8,000</u>

The above difference of \$8,000 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** **\$1,048**

This liability represents the company's estimate of amounts necessary to settle losses which were incurred prior to December 31, 2018, but which remained unpaid as of year-end. The methodology used by the company in establishing this liability is an estimate using a percentage of losses based on historical data.

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.

**Fire Department Dues Payable** **\$22**

This liability represents the fire department dues payable to the State of Wisconsin as of December 31, 2018.

The examiner 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** **\$131,961**

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 50% of the net premium in force methodology.

**Accounts Payable** **\$48**

This liability consists of an invoice due to the company's advertising vendor due and unpaid at year-end.

## **V. CONCLUSION**

Tri-County Mutual Town Insurance Company is a town mutual insurer covering an eight-county area. The company has been in business for 110 years providing property and liability insurance to its policyholders.

The company has reported underwriting gains for two of the last five years during the examination period and net income for all years under examination. Gross premiums have decreased less than 1% over the examination period, while net premiums written have decreased 2% over the same period. Policies in force have also decreased from 557 to 492. Surplus has increased 40% over the last five years, to \$978,977. The previous examination report noted that surplus increased 18% between 2006 and 2010.

The examination resulted in one recommendation concerning adherence to its articles of incorporation. All 10 recommendations from the prior examination report have been complied with by the company.

## VI. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 13 - Board of Directors—It is recommended that the company adhere to its articles of incorporation as they relate to the replacement of a director during the elected term.

## VII. ACKNOWLEDGMENT

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

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

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Dana Tice". The signature is fluid and cursive, with a large initial "D" and a long, sweeping tail.

Dana Tice  
Examiner-in-Charge