Report

of the

Examination of

All-Star/Newark Mutual Insurance Company

Brodhead, Wisconsin

As of December 31, 2016

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State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

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

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August 25, 2017

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, 2016, of the affairs and financial condition of:

ALL-STAR/NEWARK MUTUAL INSURANCE COMPANY
Brodhead, Wisconsin

and the following report thereon is respectfully submitted:

I. INTRODUCTION

The previous examination of All-Star Mutual Insurance Company was made in 2012 as of December 31, 2011. The current examination covered the intervening time period ending December 31, 2016, 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 preparation of the company's financial statements, depreciation schedules, adjusting journal entries, and federal income tax returns. On January 20, 2011, 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 February 5, 1882, under the provisions of the then existing Wisconsin Statutes. The original name of the company was the Mazomanie & Black Earth Mutual Farmers Fire & Lightning 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 two amendments to the Articles of Incorporation and one amendment to the bylaws. On March 2, 2013, policyholders resolved that the Articles of Incorporation be amended for the board to consist of 9 to 15 members. On July 15, 2015, the company amended the company name on the Articles of Incorporation and bylaws to "All-Star/Newark Mutual Insurance Company" (the company) after policyholders adopted the Agreement and Plan of Merger between All-Star Mutual Insurance Company (All-Star) and Newark Mutual Insurance Company (Newark).

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:

Adams	Jefferson
Columbia	Juneau
Crawford	Lafayette
Dane	Richland
Dodge	Rock
Grant	Sauk
Green	Vernon
Iowa	Walworth

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 and assessment basis. The company also charges a policy fee equal to $25 annually; a semiannual or quarterly installment fee of $5 per payment period; and a monthly installment fee of $2 each month. Business of the company is acquired through 80 agents, 1 of whom is a director of the company. Agents are presently compensated for their services as follows:

Type of Policy	Compensation
All Lines	14%

Agents do not have authority to adjust losses. The company uses an adjuster from Grinnell Mutual Reinsurance Company (Grinnell). The company pays Grinnell $45,964 per year for up to 175 claims, $13,750 to adjust 50 additional claims, and $400 for each additional claim thereafter.

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:

Name	Principal Occupation	Residence	Expiry
Bradley Bendorf	Production Manager	Janesville, WI	2020
Gary Hefty	Function Manager	Rogers, MN	2020
John Perkins	Sales Manager	Milton, WI	2020
James Kauss	Retired	Janesville, WI	2019
Robert Richards*	Insurance Agent	Richland Center, WI	2019
Michelle Ponkauskas	Loan Officer	Orfordville, WI	2019
Karen Johnson	Retired	Milton, WI	2018
Dillon Louis	Field Representative	Richland Center, WI	2018
Barry Zeich	Retired	Orfordville, WI	2018

* Directors who are also agents are identified with an asterisk.

Members of the board currently receive $100 for half days and $160 for full days for each meeting attended, plus $0.535 a 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	2016 Compensation
Kristi Covert	Manager	$47,266
Gary Hefty	President	$2,400
John Perkins	Vice-President	1,000
Bradley Bendorf	Secretary/Treasurer	1,500

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. As shown below, certain committees designated by the company's board, including the Adjusting Committee, only consist of two directors. There is additional commentary on the composition of committees in the section of this report captioned "Corporate Records." The committees at the time of the examination are listed below:

Adjusting Committee
Gary Hefty, Chair
James Kauss

Nominating Committee
Bradley Bendorf
Michelle Ponkauskas

Rate Committee
Karen Johnson
Robert Richards
Dillon Louis

Investment Committee
James Kauss
Michelle Ponkauskas

Personnel Committee
Robert Richards, Chair
Dillon Louis
John Perkins
Michelle Ponkauskas

Building Committee
Bradley Bendorf
Barry Zeich
John Perkins

Growth of Company

The growth of the company since the previous examination as compiled from its filed annual statements was as follows. As previously noted, Newark Mutual Insurance Company merged with and into All-Star Mutual Insurance Company on July 15, 2015. The financial data below reflects the combined totals of both companies for all years prior to the merger.

Year	Net Premiums Earned	Policies In Force	Net Income	Admitted Assets	Policyholders' Surplus
2016	$1,842,088	3,618	$ 127,830	$4,344,273	$2,243,263
2015	1,849,780	3,586	151,508	3,805,076	1,957,740
2014	1,706,202	3,538	(112,588)	3,323,683	1,749,039
2013	1,471,383	3,522	224,862	3,282,329	1,693,826
2012	1,304,822	3,335	156,217	2,953,928	1,460,784
2011	1,266,361	3,257	111,789	2,636,273	1,424,296

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

Year	Gross Premiums Written	Net Premiums Written	Policyholders' Surplus	Writings Ratios Net	Writings Ratios Gross
2016	$2,993,049	$1,836,837	$2,243,263	82%	133%
2015	3,005,291	1,990,477	1,957,740	102	154
2014	2,868,819	1,901,001	1,749,039	109	164
2013	2,762,509	1,598,759	1,693,826	94	163
2012	2,512,393	1,361,960	1,460,784	93	172
2011	2,384,588	1,294,847	1,424,296	91	167

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

Year	Net Losses and LAE Incurred	Other Underwriting Expenses Incurred	Net Premiums Earned	Loss Ratio	Expense Ratio	Com-posite Ratio
2016	$ 962,436	$817,699	$1,842,088	52%	45%	97%
2015	920,517	815,932	1,849,780	50	41	91
2014	1,078,510	873,024	1,706,202	63	46	109
2013	602,145	647,117	1,471,383	41	40	81
2012	691,735	521,045	1,304,822	53	38	91
2011	762,618	501,066	1,266,361	60	39	99

In 2014, both All-Star and Newark had a net loss, attributable to several storm and frozen water pipe claims during the year.

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. Maximum risk retentions complied with s. Ins 13.06, Wis. Adm. Code.

Reinsurer:	Grinnell Mutual Reinsurance Company
Effective date:	January 1, 2017
Termination provisions:	December 31, 2017, or any subsequent December 31, by either party providing at least 90 days' advance written notice

The coverages provided under this treaty are summarized as follows:

1. Individual occurrence of loss: Quota Share

Lines reinsured:	Property
Company's retention:	80% Quota Share
Coverage:	20% quota share of each individual occurrence loss. a.) 100% of the ultimate net loss incurred in excess of the company retention subject to a maximum recovery of $1,000,000 per risk. b.) 100% of the ultimate net loss incurred in excess of $1,000,000 for each risk subject to a maximum recovery of $4,000,000 per risk. c.) 100% of the ultimate net loss incurred in excess of the $5,000,000 for each risk subject to a maximum recovery of $15,000,000 per risk. This requires the company to provide timely notification to the reinsurer of any risks exceeding $10,000,000.
Reinsurance premium:	20% of premiums charged

2. Aggregate excess reinsurance sections:

Lines reinsured:	Property
Company's retention:	Annual net losses limited to the defined retention limit of $1,680,960 for 2017; however, in no event shall the liability of the reinsured exceed the amount allowed by s. Ins 13.09, Wis. Adm. Code
Coverage:	100% of amounts exceeding the annual retention limit
Reinsurance premium:	10% of Net premiums written

3. Liability section:

Lines reinsured:	Comprehensive Personal and Famers Personal Liability
Company's retention:	$2,000
Coverage:	100% in excess of the company's per claim retention
Reinsurance premium:	100% of premiums charged
Ceding commission:	26% of ceded premium
Contingent commission:	5-30% considering net premiums written and net underwriting profits realized by the reinsurer

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, 2016, 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."

All-Star/Newark Mutual Insurance Company
Statement of Assets and Liabilities
As of December 31, 2016

Assets	Ledger	Nonledger	Not Admitted	Net Admitted
Cash on hand	$ 260	$	$	$ 260
Cash in checking	328,903			328,903
Cash deposited at interest	1,491,030			1,491,030
Bonds	1,165,007			1,165,007
Stocks and mutual fund investments	771,497			771,497
Real estate	58,705			58,705
Premiums, agents' balances and installments:				
In course of collection	28,378			28,378
Deferred and not yet due	449,407			449,407
Investment income accrued		32,605		32,605
Fire dues recoverable	406			406
Other nonexpense-related assets:				
Federal income tax recoverable	18,075			18,075
Totals	$4,311,668	$32,605	$ 0	$4,344,273

Liabilities and Surplus

Net unpaid losses	$ 430,000
Unpaid loss adjustment expenses	3,830
Commissions payable	116,608
Unearned premiums	1,306,926
Reinsurance payable	141,931
Other liabilities:	
Expense-related:	
Accounts payable	14,457
Accrued salaries and wages	12,150
Nonexpense-related:	
Premiums received in advance	75,108
Total liabilities	2,101,010
Policyholders' surplus	2,243,263
Total Liabilities and Surplus	$4,344,273

All-Star/Newark Mutual Insurance Company
Statement of Operations
For the Year 2016

Net premiums and assessments earned		$1,842,088
Deduct:		
Net losses incurred	$864,713	
Net loss adjustment expenses incurred	97,723	
Net other underwriting expenses incurred	817,699	
Total losses and expenses incurred		1,780,135
Net underwriting gain (loss)		61,953
Net investment income:		
Net investment income earned		(1,441)
Other income (expense):		
Miscellaneous income		110,818
Net income (loss) before federal income taxes		171,330
Federal income taxes incurred		43,500
Net Income (Loss)		$ 127,830

All-Star/Newark Mutual Insurance Company
Reconciliation and Analysis of Surplus as Regards Policyholders
For the Five-Year Period Ending December 31, 2016

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:

	2016	2015	2014*	2013*	2012*
Surplus, beginning of year	$1,957,740	$1,749,039	$1,693,826	$1,460,784	$1,424,296
Net income (loss)	127,830	151,508	(112,588)	224,862	156,217
Net unrealized capital gain or (loss)	157,693	57,193	167,801	8,180	(119,729)
Surplus, End of Year	$2,243,263	$1,957,740	$1,749,039	$1,693,826	$1,460,784

* Note: Newark Mutual Insurance Company merged with and into All-Star Mutual Insurance Company effective July 15, 2015. Financial results for 2012 through 2014 reflect the combined balances from both companies.

Reconciliation of Policyholders' Surplus

The examination resulted in no adjustments to policyholders’ surplus. The amount reported by the company as of December 31, 2016, 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. Underwriting—It is recommended that all policy applications are signed by the policyholder.

   Action—Compliance

2. Unpaid Loss Adjustment Expenses—It is suggested that the company should record a liability for unpaid loss adjustment expenses going forward when applicable.

   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. It was noted that several meeting minutes were missing or not approved by the board. It is recommended that the minutes for the board and committees of the board be maintained pursuant to s. Ins 6.80 (4) (a), Wis. Adm. Code.

As noted earlier in this report, the board of directors has established several committees which have only two members, including the Adjusting Committee. However, non-stock corporations are required to comply with s. 181.0825, Wis. Stat., which requires that board committees consist of at least three directors. Furthermore, s. 612.13 (4), Wis. Stat., provides that an adjustment committee must consist either of three directors or of the entire board. It is recommended that the company restructure its board committees to consist of at least three directors and amend its bylaws accordingly and, if preferred, amend its bylaws to include the entire board as the adjusting committee, pursuant to s. 181.0825, Wis. Stat., and s. 612.13 (4), Wis. Stat. 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. It was noted that several conflict of interest questionnaires were missing or did not have the required signatures or dates. It is recommended that each of the company's officers, directors, and key employees annually make conflict of interest disclosures to the company and that the company retain the disclosures in the company's records from examination to examination, in compliance with the directive of the Commission of Insurance.

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:	$ 500,000
Forgery and alteration	
Securities	
Worker's compensation:	
Employee injury	Statutory
Employer's liability:	
Each accident	100,000
Each employee	100,000
Policy limit	500,000
Professional liability	2,000,000
Insurance company professional liability	2,000,000
Directors and officers	2,000,000
Unauthorized release of protected information	100,000
Business property and liability:	
Business personal property	100,000
Business liability:	2,000,000
Medical expense	5,000
E&O	3,000,000
Data breach coverage	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 does not have a formal inspection procedure for both new and renewal business; however, according to management's business plan (which was not formally adopted by the board), the company plans to perform inspections on new business within the first 60 days of coverage and on renewal business every three to five years. New applications and renewal business is inspected by an employee of the company who is independent of the risk or by JMI Reports, an independent contractor. It is suggested that the company develop a formal inspection policy (which should be approved by the board) and that the company retain evidence of the inspections in the policy files in order to monitor that inspections are performed in compliance with the company's board-approved inspection policy.

Claims Adjusting

The company has an adjusting committee consisting of two directors, which, as mentioned previously, is not in compliance with the minimum of three directors 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, 2016.

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 computer 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.

The company does not have manuals documenting the use of its software and outlining the steps to complete specific tasks. The company receives online support as needed due to continuous system changes. The company obtains online support to assist in the continuity of operations by providing instructions for seldom-used applications or when staff turnover occurs. The examination determined that obtaining online support as needed 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 developed a business continuity plan; however, the plan is obsolete and has not been approved by the board. It is suggested that the company develop, and the board approve, a comprehensive business continuity plan that would more clearly identify what would be done in cases where it is not able to access its computers or if the office building is destroyed.

Unclaimed Property

A written escheat policy addresses a company's procedures relating to stale-dated checks and the establishment and maintenance of an escheat liability account. It was noted that the company does not hold any checks outstanding beyond five years; however, the company does not have a written escheat policy. It is recommended that the company develop, and the board adopt, a written escheat policy that addresses: (1) the company's procedures relating to stale-dated checks (sufficient to ensure compliance with the requirements of ch. 177, Wis. Stat.) and (2) the establishment and maintenance of an escheat liability account (to hold stale-dated checks outstanding for over one year).

Invested Assets

Section 610.23, Wis. Stat., requires insurers to hold all investments and deposits of its funds in its own name except that:

(1) Securities kept under a custodial agreement or trust arrangement with a bank or banking and trust company may be issued in the name of a nominee of the bank or banking and trust company; and

(2) Any insurer may acquire and hold securities in bearer form.

For securities not held under a custodial agreement or trust arrangement with a bank or banking and trust company, s. Ins 13.05 (4), Wis. Adm. Code, requires that:

> Non-negotiable evidences of company investments such as registered bonds, certificates of deposits, notes, etc., shall be maintained in a safe or vault with adequate safety controls or in a safety deposit box in a bank. Negotiable evidences of company investments shall be maintained in a safety deposit box in a bank. Access to a company safety deposit box containing negotiable securities shall require the presence and signature of at least 2 officers, directors or employees of the company.

The company is not in compliance with these requirements. The examination found that the company acquired securities during 2016 under a ”Client Account Agreement” with RBC Wealth Management. The agreement does not specify where these securities are to be held in custody, and the examination found that these securities are held in a brokerage account with RBC Wealth Management. As the company's securities are held in a brokerage account (which is not a custodial account), the company is not in compliance with s. 610.23, Wis. Stat. It is recommended that the company comply with s. 610.23, Wis. Stat., and immediately transfer the securities held in the RBC Wealth Management brokerage account into a proper custodial or trust arrangement with a bank or banking and trust company.

It is further recommended that the company execute a custodial agreement with a bank or banking and trust company, which contains indemnification provisions approved in writing by this office. It is further recommended that the company obtain custodial statements from their custodian that include a detailed list of securities under custody at least quarterly and such statements should be reconciled to any applicable statements from the investment brokerage firm. The examination's review of the Client Account Agreement with RBC Wealth Management indicated that the agreement is not executed and does not require adherence to the company's investment policy. Industry best practices dictates that if a company chooses to delegate investment management activities to a third party, the duties and responsibilities of the external investment manager should be clearly articulated in an investment management agreement, which should be approved by the board of directors and executed by both parties. It is recommended that the company execute an Investment Management Agreement with RBC

Wealth Management (or other investment manager selected by the company). The agreement should: (1) be approved by the board of directors prior to execution and (2) require that the investment manager adhere to the company's investment policy, as well as applicable Wisconsin laws and regulations pertaining to investments of town mutual insurance companies (specifically, s. Ins 6.20 (6), Wis. Adm. Code).

The company's investment policy states: "The Investment Committee will be responsible for investments and the monitoring of an investment manager/investor. This policy statement is approved by the board of directors of All-Star/Newark Mutual Insurance Company and must be reviewed by this board on an annual basis." During review of the board meeting minutes, it was noted that the board does not appear to be reviewing the company's investment policy on an annual basis. Additionally, the Investment Committee does not appear to be monitoring the investment manager's activities in accordance with the investment policy. It is recommended that the board review the investment policy annually to ensure that the policy continues to reflect the company's investment goals and objectives and that these reviews be documented in the board meeting minutes. It is recommended that the Investment Committee monitor the investment activities of the investment manager during its regular meetings and that these reviews be documented in the board meeting minutes.

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	$2,401,010
2.	Liabilities plus 33% of gross premiums written	3,088,716
3.	Liabilities plus 50% of net premiums written	3,019,429
4.	Amount required (greater of 1, 2, or 3)	3,088,716
5.	Amount of Type 1 investments as of 12/31/2016	2,892,272
6.	Excess or (deficiency)	$ (196,444)

The company does not have sufficient Type 1 investments.

The investment rule prescribes that a town mutual shall divest of any investment which does not comply with the rule within three years of its noncompliance, unless the Commissioner permits a longer period or requires a shorter period. Currently the company has two Type 2 investments, the CF Industries Holdings Inc. bond with statement value of $106,667 that fell below investment grade prior to year-end 2016, which is included in deficiency calculation above, and the Staples bond with statement value of $111,325 that fell below investment grade subsequent to year-end 2016. These investments are not in compliance with the investment rule. It is recommended that the company divest of the CF Industries Holding Inc. and Staples bonds within three years of noncompliance in accordance with s. Ins 6.20 (6) (g), Wis. Adm. Code.

During review of bond ratings, it was noted that the company reported a designation of “1” for all of its bonds. The CF Industries Holding Inc. bond was rated equivalent to an SVO designation of “3” by Moody’s, Standard & Poor’s, and Fitch at year-end 2016. Additionally, it was noted that several of the bonds had ratings equivalent to an SVO designation of “2.” It is recommended that the company compare bond credit ratings to SVO designation equivalents and report the correct bond designation for each bond at year-end.

ASSETS

Cash and Invested Cash **$1,820,193**

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

Cash in company's office	$ 260
Cash deposited in banks—checking accounts	328,903
Cash deposited in banks at interest	1,491,030
Total	$1,820,193

Cash in company's office at year-end represents the company's petty cash fund. The examiners did not test this balance due to the balance being insignificant.

Cash deposited in banks subject to the company's check and withdrawal consists of two accounts maintained in two banks. The company’s auditors verified the Bank of New Glarus checking account balance by obtaining a confirmation directly from the depository. The McFarland State Bank account had not been used in 2016 and subsequent and was closed subsequent to year-end 2016. The company received a check for the withdrawn balance upon closure of the account, which was deposited into the Bank of New Glarus. This balance was verified by tracing the amount from the 2016 annual statement to the final account statement from the McFarland State Bank dated July 13, 2017, and then to the deposit ticket for the Bank of New Glarus dated August 24, 2017. The examination noted that the company maintained the check for the withdrawn balance in the company’s office for six weeks before depositing it into the Bank of New Glarus. Pursuant to s. Ins 13.05 (4) (a), Wis. Adm. Code, all checks received by the company shall be endorsed for deposit immediately upon receipt, and all cash receipts shall be deposited at least weekly. It is suggested that any checks received by the company be endorsed immediately upon receipt and that all cash receipts be deposited at least weekly in compliance with s. Ins 13.05 (4) (a), Wis. Adm. Code.

Cash deposited at interest in banks represents the aggregate of 18 deposits in 12 depositories. Deposits were verified by direct correspondence with the respective depositories and by an actual count and inspection by the examiner of certificates and/or passbooks. Interest received during year 2016 totaled $28,880, which was verified by the company’s auditors. Rates of interest earned on cash deposits ranged from 0.45% to 2.0%. Accrued interest on cash deposits totaled $12,381 at year-end 2016.

Book Value of Bonds **$1,165,007**

The above asset consists of the aggregate book value of bonds held by the company as of December 31, 2016. Bonds owned by the company are located in brokerage accounts.

Bond purchases and sales for the period under examination were checked to the brokers' statement. The company is Type 1 investment deficient and is prohibited from holding any Type 2 investments. As noted above, the CF Industries Holding Inc. bond was purchased in 2016 and fell below investment grade prior to year-end 2016, and the company failed to maintain its securities in a proper custodial account. Consequently, the company's investment in bonds was not in conformance with Wisconsin Statutes and the rules of the Commissioner of Insurance as regards investments made by town mutual insurers.

Interest received during 2016 on bonds amounted to $(1,370) and was verified by the company’s auditors. All of the company’s bonds were purchased during the last half of 2016, at which point it purchased the interest accrued during the first half of the year. The interest received is negative due to the company deducting the accrued interest purchased from interest received. Accrued interest of $20,134 at December 31, 2016, was verified and allowed as a non-ledger asset.

Stocks and Mutual Fund Investments **$771,497**

The above asset consists of the aggregate market value of stocks and mutual funds held by the company as of December 31, 2016. Stocks owned by the company, which include Wisconsin Electric Power Company preferred stock and NAMICO and Wisconsin Reinsurance Corporation common stock, are located in a fire proof safe and are held by the company in certificate form.

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 2016 on stocks and mutual funds amounted to $5,033 and were verified by the company’s auditors. Accrued dividends of $90 at December 31, 2016, were checked and allowed as a non-ledger asset.

Book Value of Real Estate **$58,705**

The above amount represents the company's investment in real estate, net of depreciation, as of December 31, 2016. The company's real estate holdings consisted of the old Newark Mutual Insurance Company home office building located in Beloit, Wisconsin, and the old Brodhead Public Library building located in Brodhead, Wisconsin.

These properties were subsequently sold in 2017. The required documents supporting the validity of these assets at December 31, 2016, were reviewed and verified. Required hazard insurance was not reviewed due to the subsequent sale of the properties. 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.

Premiums, Agents' Balances in Course of Collection **$28,378**

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

Premiums Deferred and Not Yet Due **$449,407**

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 **$32,605**

Interest due and accrued on the various assets of the company at December 31, 2016, consists of the following:

Cash at Interest	$12,381
Bonds	20,134
Total	$32,605

Investment income accrued was verified by the company's auditors.

Fire Dues Recoverable **$406**

This asset represents the amount overpaid to the State of Wisconsin for 2016 fire dues. The examiners reviewed the company's fire department dues calculation and found this asset to be reasonably calculated. The actual amount paid was verified to the premium tax system.

Federal Income Tax Recoverable **$18,075**

This asset represents the amount overpaid for income taxes in 2016. The examiners reviewed the company's income tax calculation and found this asset to be correctly calculated.

LIABILITIES AND SURPLUS

Net Unpaid Losses **$430,000**

This liability represents losses incurred on or prior to December 31, 2016, 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, 2016, with incurred dates in 2016 and prior years. To the actual paid loss figure was added an estimated amount for 2016 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.

	Company Estimate	Examiners' Development	Difference
Incurred but unpaid losses	$634,756	$485,867	$148,889
Less: Reinsurance recoverable on unpaid losses	204,756	204,755	1
Net Unpaid Losses	$430,000	$281,112	$148,888

It appears that the case reserves were more than adequate at year-end 2016 and the examiners accepted the amount reported by the company.

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 **$3,830**

This liability represents the company's estimate of amounts necessary to settle losses which were incurred prior to December 31, 2016, but which remained unpaid as of year-end. The methodology used by the company in establishing this liability is to calculate the ratio on a paid to paid basis.

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. The examiners determined this liability to be adequately stated.

Commissions Payable **$116,608**

This liability represents the commissions payable to agents as of December 31, 2016. The examiners reviewed the company's commission calculation and found the liability to be reasonably stated.

Unearned Premiums **$1,306,926**

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. A recalculation of the company's detailed list of unearned premiums on a sample basis verified this liability.

Reinsurance Payable **$141,931**

This liability consists of amounts due to the company's reinsurer at December 31, 2016, relating to transactions which occurred on or prior to that date. Subsequent cash disbursements verified this item.

Accounts Payable **$14,457**

This liability consists primarily of employer contributions for pension benefits, which is calculated as 6% of employee and director wages and are generally determined in December and paid to each employee's desired pension benefit company at the beginning of the subsequent year. The remainder of this liability is for other accounts payable and amounts due to policyholders for overpayments, which are subsequently refunded or applied to future payments. The balance for employer contributions and other accounts payable was verified by the company's auditors. The balance for amounts due to policyholders for overpayments was considered insignificant for purposes of this examination.

Accrued Salaries and Wages **$12,150**

This liability represents accrued vacation and sick leave at year-end 2016, in addition to unpaid state withholding taxes. The accrued vacation and sick leave accounts payable balance was verified by the company's auditors. The unpaid state withholding taxes balance was considered insignificant for purposes of this examination.

Premiums Received in Advance **$75,108**

This liability represents the total premiums received prior to year-end for policies with effective dates after December 31, 2016. The examiners reviewed 2016 premium and cash receipt records to verify the accuracy of this liability.

V. CONCLUSION

All-Star/Newark Mutual Insurance Company, a town mutual insurer with an authorized territory of 16 counties, is the result of the 2015 merger between Newark Mutual Insurance Company and All-Star Mutual Insurance Company (the latter being the surviving company). The surviving company has been in the business of providing property and liability insurance since 1882.

The company reported assets of $4,344,273, liabilities of $2,101,010 and policyholders' surplus of $2,243,263 at year-end 2016. The company reported net income of $127,830 and underwriting gains of $61,953 for 2016. During 2014, All-Star reported an underwriting loss of $148,457 and a net loss of $42,234, and Newark reported an underwriting loss of $96,875 and a net loss of $70,264; both companies' losses were primarily attributable to several storm and frozen water pipe claims during the year. The prior examination of the company resulted in two recommendations. The current examination resulted in eleven recommendations and three suggestions (none of which were repeated from the prior examination).

VI. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 14 - Corporate Records—It is recommended that the minutes for the board and committees of the board be maintained pursuant to s. Ins 6.80 (4) (a), Wis. Adm. Code.

2. Page 14 - Corporate Records—It is recommended that the company restructure its board committees to consist of at least three directors and amend its bylaws accordingly and, if preferred, amend its bylaws to include the entire board as the adjusting committee, pursuant to s. 181.0825, Wis. Stat., and s. 612.13 (4), Wis. Stat.

3. Page 14 - Conflict of Interest—It is recommended that each of the company's officers, directors, and key employees annually make conflict of interest disclosures to the company and that the company retain the disclosures in the company's records from examination to examination, in compliance with the directive of the Commission of Insurance.

4. Page 15 - Underwriting—It is suggested that the company develop a formal inspection policy (which should be approved by the board) and that the company retain evidence of the inspections in the policy files in order to monitor that inspections are performed in compliance with the company's board-approved inspection policy.

5. Page 17 - Business Continuity Plan—It is suggested that the company develop, and the board approve, a comprehensive business continuity plan that would more clearly identify what would be done in cases where it is not able to access its computers or if the office building is destroyed.

6. Page 17 - Unclaimed Property—It is recommended that the company develop, and the board adopt, a written escheat policy that addresses: (1) the company's procedures relating to stale-dated checks (sufficient to ensure compliance with the requirements of ch. 177, Wis. Stat.) and (2) the establishment and maintenance of an escheat liability account (to hold stale-dated checks outstanding for over one year).

7. Page 18 - Invested Assets—It is recommended that the company comply with s. 610.23, Wis. Stat., and immediately transfer the securities held in the RBC Wealth Management brokerage account into a proper custodial or trust arrangement with a bank or banking and trust company.

8. Page 18 - Invested Assets—It is further recommended that the company execute a custodial agreement with a bank or banking and trust company, which contains indemnification provisions approved in writing by this office. It is further recommended that the company obtain custodial statements from their custodian that include a detailed list of securities under custody at least quarterly and such statements should be reconciled to any applicable statements from the investment brokerage firm.

9. Page 18 - Invested Assets—It is recommended that the company execute an Investment Management Agreement with RBC Wealth Management (or other investment manager selected by the company). The agreement should: (1) be approved by the board of directors prior to execution and (2) require that the investment manager adhere to the company's investment policy, as well as applicable Wisconsin laws and regulations pertaining to investments of

town mutual insurance companies (specifically, s. Ins 6.20 (6), Wis. Adm. Code).

10. Page 19 - Invested Assets—It is recommended that the board review the investment policy annually to ensure that the policy continues to reflect the company's investment goals and objectives and that these reviews be documented in the board meeting minutes.

11 Page 19 - Invested Assets—It is recommended that the Investment Committee monitor the investment activities of the investment manager during its regular meetings and that these reviews be documented in the board meeting minutes.

12. Page 20 - Investment Rule Compliance—It is recommended that the company divest of the CF Industries Holding Inc. and Staples bonds within three years of noncompliance in accordance with s. Ins 6.20 (6) (g), Wis. Adm. Code.

13. Page 20 - Investment Rule Compliance—It is recommended that the company compare bond credit ratings to SVO designation equivalents and report the correct bond designation for each bond at year-end.

14. Page 21 - Cash and Invested Cash—It is suggested that any checks received by the company be endorsed immediately upon receipt and that all cash receipts be deposited at least weekly in compliance with s. Ins 13.05 (4) (a), Wis. Adm. Code.

VII. ACKNOWLEDGMENT

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

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

Respectfully submitted,

Shelly Bueno
Examiner-in-Charge