

Report of the Examination of  
Ellington Mutual Insurance Company  
Hortonville, Wisconsin  
As of December 31, 2020

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January 3, 2022

Honorable Nathan Houdek  
Commissioner of Insurance  
State of Wisconsin  
125 South Webster Street  
Madison, Wisconsin 53703

Commissioner:

In accordance with your instructions, a compliance examination has been made of the affairs and financial condition of:

ELLINGTON MUTUAL INSURANCE COMPANY  
Hortonville, Wisconsin

and this report is respectfully submitted.

## I. INTRODUCTION

The previous examination of Ellington Mutual Insurance Company (the company) was conducted in 2016 as of December 31, 2015. The current examination covered the intervening period ending December 31, 2020, and included a review of such subsequent transactions as deemed necessary to complete the examination.

The examination was conducted using a risk-focused approach in accordance with the National Association of Insurance Commissioners (NAIC) Financial Condition Examiners Handbook. This approach sets forth guidance for planning and performing the examination of an insurance company to evaluate the financial condition, assess corporate governance, identify current and prospective risks (including those that might materially affect the financial condition, either currently or prospectively), and evaluate system controls and procedures used to mitigate those risks.

All accounts and activities of the company were considered in accordance with the risk-focused examination process. This may include assessing significant estimates made by management and evaluating management's compliance with statutory accounting principles, annual statement instructions, and Wisconsin laws and regulations. The examination does not attest to the fair presentation of the financial statements included herein. If during the course of the examination an

adjustment is identified, the impact of such adjustment will be documented separately at the end of the "Financial Data" section in the area captioned "Reconciliation of Surplus per Examination."

Emphasis was placed on those areas of the company's operations accorded a high priority by the examiner-in-charge when planning the examination. 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 concerning the alternative or additional examination steps performed during the examination.

In addition to auditing, the public accounting firm performs non-auditing services for the company, including preparation of tax returns and annual statement and consulting on regulatory changes. On December 10, 2010, an exemption was granted by the Commissioner, pursuant to s. Ins 50.08 (5), Wis. Adm. Code, permitting the independent auditor to perform this non-audit work for the company.

## II. HISTORY AND PLAN OF OPERATION

The company was organized as a town mutual insurance company on July 16, 1878, under the provisions of the then-existing Wisconsin Statutes. The original name of the company was the Farmers Home Mutual Insurance Company. Subsequent amendments to the company's articles and bylaws changed the company's name to that presently used. On February 21, 1999, a stipulation and order allowed the company to convert from a town mutual insurer to a non-assessable mutual insurer authorized under ch. 611, Wis. Stat. This order was superseded by another dated November 17, 2007, which states, among other matters, that the company shall maintain a permanent surplus of \$2,000,000 and the company must notify the Commissioner 30 days prior to a change in its reinsurance program and such changes are subject to disapproval by the Commissioner. On July 15, 1999, Waupaca Mutual Insurance Company merged into Ellington Mutual Insurance Company, with Ellington Mutual Insurance Company being the surviving company.

The company is licensed exclusively in the state of Wisconsin and all of its business is conducted in Wisconsin. The major products marketed by the company include homeowners, farmowners, commercial multiple peril, allied lines, fire, other liability – occurrence, and boiler and machinery. In addition, the company is authorized to write automobile insurance only on an excess basis in conjunction with its umbrella excess liability program. The major products are marketed through 210 independent agents.

The following table is a summary of the net insurance premiums written by the company in 2020. The growth of the company is discussed in the "Financial Data" section of this report.

Line of Business	Direct Premium	Reinsurance Assumed	Reinsurance Ceded	Net Premium
Fire	\$ 234,171	\$0	\$ 73,430	\$ 160,741
Allied lines	286,209		89,748	196,461
Farmowners multiple peril	884,699		277,420	607,279
Homeowners multiple peril	2,767,550		867,835	1,899,715
Commercial multiple peril	288,447		90,450	197,997
Other liability – occurrence	29,223		27,751	1,472
Boiler and machinery	<u>2,987</u>	—	<u>2,987</u>	<u>          </u>
Total All Lines	<u>\$4,493,286</u>	<u>\$0</u>	<u>\$1,429,621</u>	<u>\$3,063,665</u>

### III. MANAGEMENT AND CONTROL

#### Board of Directors

The board of directors consists of nine members. Three directors are elected annually to serve a three-year term. Officers are elected at the board's annual meeting.

Currently, the board of directors consists of the following persons:

<b>Name and Residence</b>	<b>Principal Occupation</b>	<b>Term Expires</b>
Mike Mehlberg Clintonville, Wisconsin	Bank Manager	2024
Keith Suprise Shiocton, Wisconsin	Retired	2023
Joseph Bricco New London, Wisconsin	Farmer	2022
Jennifer Bauer Ogdensburg, Wisconsin	Self-employed	2024
Carol Prill New London, Wisconsin	Retired	2023
Angela Hanson Manawa, Wisconsin	Mortgage Lender	2022
Lisa Visocky Hortonville, Wisconsin	Utility Clerk	2022
Tina Auer New London, Wisconsin	Retired	2024
Randy Erickson Bear Creek, Wisconsin	Farmer	2023

#### Officers of the Company

The officers serving at the time of this examination are as follows:

<b>Name</b>	<b>Office</b>
Mike Mehlberg	Chairman
Keith Suprise	Vice Chairman
Joseph Bricco	Secretary/Treasurer
Howard J. Schwartz	President and Chief Executive Officer

## **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:

### **Nomination Committee**

Randy Erickson  
Keith Surprise  
Carol Prill

### **Investing Committee**

All Members

### **Adjusting Committee**

Randy Erickson  
Keith Surprise  
Joe Bricco

### **Audit Committee**

All Board Members

### **Scholarship Committee**

Jennifer Bauer  
Carol Prill  
Lisa Visocky

### **Strategic Planning Committee**

All Board Members

#### IV. REINSURANCE

The company's reinsurance portfolio and strategy at the time of the examination are described below. The examiner's review of the company's reinsurance portfolio revealed that there is currently one ceding treaty with multiple contracts. The treaty contained a proper insolvency clause and complied with the various retention limits, stop-loss and catastrophic coverages as prescribed under ch. 612, Wis. Stat.

##### **Ceding Treaty**

Reinsurer: Wisconsin Reinsurance Corporation (WRC)  
Effective Date: January 1, 2021 (continuous)  
Termination Provisions: Either party may terminate the contract as of any subsequent January 1 by giving the other party at least 90 days' advance notice in writing

##### **The coverages provided under this treaty are summarized as follows:**

1. Type of contract: Casualty Excess of Loss  
Lines reinsured: All casualty or liability business written by the company  
Company's retention: \$10,000 in respect to each and every loss occurrence up to policy limits  
Coverage: 100% in excess of retention including loss adjusting expense, subject to policy limits of \$1,000,000 for bodily injury and property damage, \$1,000,000 split limits in any combination bodily injury and property damage liability, and \$25,000 per person and \$25,000 per accident for medical payments
  
2. Type of contract: Combination Umbrella Quota Share and Excess of Loss  
Lines reinsured: All umbrella liability business written by the company  
Company's retention: Part 1- \$0 and Part 2 - \$1,000,000  
Coverage: Part 1 - 99% Quota Share of the first \$1,000,000 limit of liability  
Part 2 – 100% of \$1,000,000 in excess of \$1,000,000 each loss occurrence
  
3. Type of contract: First Surplus  
Lines reinsured: All property business  
Retention: \$600,000



- Coverage: Pro Rata up to \$2,000,000. Special acceptances required for single property above \$2,500,000
4. Type of contract: First Per Risk Excess of Loss
- Lines reinsured: All property business written by the company
- Company's retention: \$125,000 for each and every risk from one loss occurrence
- Coverage: 100% of \$125,00 of each and every loss, including loss adjustment expense in excess of the company's net retention,
5. Type of contract: Second Per Risk Excess of Loss
- Lines reinsured: All property business written by the company
- Company's retention: \$250,000 for each and every risk from one loss occurrence
- Coverage: 100% of \$350,00 of each and every loss, including loss adjustment expense, in excess of the company's net retention, \$250,000
6. Type of contract: First CAT Excess of Loss
- Lines reinsured: All property business written by the company
- Company's retention: \$500,000
- Coverage: 100% of \$5,000,000 of company losses and LAE in excess of retention, The reinsurer's maximum limit of liability for all loss occurrences, in any one annual period, shall not exceed twice the normal limit.
7. Type of contract: First Aggregate Excess of Loss
- Lines reinsured: All business written by the company
- Company's retention: 70% attachment point Est attachment point of \$2,363,786
- Coverage: 100% of 55% by which the aggregate of company losses and LAE that exceed the attachment point which is equal to the attachment point percentage
8. Type of contract: Second Aggregate Excess of Loss
- Lines reinsured: All business written by the company
- Company's retention: 125% attachment point
- Coverage: 100% of all loss

## **V. FINANCIAL DATA**

The following financial statements reflect the financial condition of the company as reported to the Commissioner of Insurance in the December 31, 2020, annual statement. Adjustments made as a result of the examination are noted at the end of this section in the area captioned "Reconciliation of Surplus per Examination." Also included in this section are schedules that reflect the growth of the company, NAIC Insurance Regulatory Information System (IRIS) ratio results for the period under examination, and the compulsory and security surplus calculation.

**Ellington Mutual Insurance Company**  
**Assets**  
**As of December 31, 2020**

	<b>Assets</b>	<b>Nonadmitted Assets</b>	<b>Net Admitted Assets</b>
Bonds	\$1,353,942	\$	\$1,353,942
Stocks:			
Preferred stocks	152,000		152,000
Common stocks	3,596,076		3,596,076
Real estate:			
Occupied by the company	182,348		182,348
Cash, cash equivalents, and short-term investments	1,104,182		1,104,182
Investment income due and accrued	13,217		13,217
Premiums and considerations:			
Uncollected premiums and agents' balances in course of collection	238,897		238,897
Deferred premiums, agents' balances, and installments booked but deferred and not yet due	299,250		299,250
Reinsurance:			
Amounts recoverable from reinsurers	105,246		105,246
Electronic data processing equipment and software	31,283	19,365	11,918
Furniture and equipment, including health care delivery assets	<u>810</u>	<u>810</u>	<u>          </u>
<b>Total Assets</b>	<b><u>\$7,077,251</u></b>	<b><u>\$20,175</u></b>	<b><u>\$7,057,076</u></b>

**Ellington Mutual Insurance Company**  
**Liabilities, Surplus, and Other Funds**  
**As of December 31, 2020**

Losses		\$ 241,366
Loss adjustment expenses		14,000
Commissions payable, contingent commissions, and other similar charges		81,594
Other expenses (excluding taxes, licenses, and fees)		124,819
Taxes, licenses, and fees (excluding federal and foreign income taxes)		6,127
Net deferred tax liability		30,000
Borrowed money and interest thereon		97,045
Unearned premiums		2,294,270
Advance premium		4,330
Ceded reinsurance premiums payable (net of ceding commissions)		<u>104,306</u>
Total Liabilities		2,997,857
Unassigned funds (surplus)	\$4,059,219	
Surplus as Regards Policyholders		<u>4,059,219</u>
Total Liabilities and Surplus		<u>\$7,057,076</u>

**Ellington Mutual Insurance Company**  
**Summary of Operations**  
**For the Year 2020**

<b>Underwriting Income</b>		
Premiums earned		\$2,979,492
Deductions:		
Losses incurred	\$1,467,830	
Loss adjustment expenses incurred	290,108	
Other underwriting expenses incurred	1,424,796	
Total underwriting deductions	<u>3,182,734</u>	
Net underwriting gain (loss)		(203,242)
<b>Investment Income</b>		
Net investment income earned	10,429	
Net realized capital gains (losses)	<u>3,326</u>	
Net investment gain (loss)		13,755
<b>Other Income</b>		
Finance and service charges not included in premiums	147,318	
Total other income		<u>147,318</u>
Net Income (Loss)		<u>\$ (42,169)</u>

**Ellington Mutual Insurance Company**  
**Cash Flow**  
**For the Year 2020**

Premiums collected net of reinsurance		\$2,861,935
Net investment income		33,876
Miscellaneous income		<u>147,318</u>
Total		3,043,129
Benefit- and loss-related payments	\$1,323,434	
Commissions, expenses paid, and aggregate write-ins for deductions	<u>1,625,120</u>	
Total deductions		<u>2,948,554</u>
Net cash from operations		94,575
Proceeds from investments sold, matured, or repaid:		
Bonds	\$844,263	
Stocks	<u>18,638</u>	
Total investment proceeds		862,901
Cost of investments acquired (long- term only):		
Bonds	271,513	
Stocks	<u>87,666</u>	
Total investments acquired		<u>359,178</u>
Net cash from investments		503,723
Borrowed funds		97,045
Other cash provided (applied)		<u>(23,891)</u>
Net cash from financing and miscellaneous sources		<u>73,154</u>
<b>Reconciliation:</b>		
Net Change in Cash, Cash Equivalents, and Short-Term Investments		671,452
Cash, cash equivalents, and short-term investments:		
Beginning of year		<u>432,730</u>
End of Year		<u>\$1,104,182</u>

**Ellington Mutual Insurance Company  
Compulsory and Security Surplus Calculation  
December 31, 2020**

Assets		\$7,077,251
Less liabilities		<u>2,294,270</u>
Adjusted surplus		4,782,981
Annual premium:		
Lines other than accident and health	\$3,063,665	
Factor	<u>20%</u>	
Compulsory surplus (subject to a minimum of \$2 million)		<u>2,000,000</u>
Compulsory Surplus Excess (Deficit)		<u>\$2,059,219</u>
Adjusted surplus (from above)		\$4,782,981
Security surplus (140% of compulsory surplus, factor reduced 1% for each \$33 million in premium written in excess of \$10 million, with a minimum factor of 110%)		<u>2,800,000</u>
Security Surplus Excess (Deficit)		<u>\$1,259,219</u>

**Ellington Mutual Insurance Company  
Analysis of Surplus  
For the Five-Year Period Ending December 31, 2020**

The following schedule details items affecting surplus during the period under examination as reported by the company in its filed annual statements:

	2020	2019	2018	2017	2016
Surplus, beginning of year	\$4,020,310	\$4,149,282	\$3,767,727	\$3,759,558	\$3,139,531
Net income	(42,169)	(389,063)	458,627	(504,906)	233,867
Change in net unrealized capital gains/losses	77,727	156,780	20,340	643,676	281,860
Change in net deferred income tax	19,000	101,000	(172,000)	(67,880)	(65,980)
Change in nonadmitted assets	<u>(15,649)</u>	<u>2,311</u>	<u>74,588</u>	<u>(62,721)</u>	<u>170,280</u>
Surplus, End of Year	<u>\$4,059,219</u>	<u>\$4,020,310</u>	<u>\$4,149,282</u>	<u>\$3,767,727</u>	<u>\$3,759,558</u>

**Ellington Mutual Insurance Company  
Insurance Regulatory Information System  
For the Five-Year Period Ending December 31, 2020**

The company's NAIC Insurance Regulatory Information System (IRIS) results for the period under examination are summarized below.

Ratio	2020	2019	2018	2017	2016
#1 Gross Premium to Surplus	111%	112%	106%	117%	108%
#2 Net Premium to Surplus	75	75	67	73	66
#3 Change in Net Premiums Written	2	9	1	10	12
#4 Surplus Aid to Surplus	0	0	0	0	0
#5 Two-Year Overall Operating Ratio	107*	101*	99	102*	92
#6 Investment Yield	0.2*	0.6*	0.6*	0.9*	0.9*
#7 Gross Change in Surplus	1	-3	10	0	20
#8 Change in Adjusted Surplus	1	-3	10	0	20
#9 Liabilities to Liquid Assets	43	39	39	40	38
#10 Agents' Balances to Surplus	6	1	1	1	2
#11 One-Year Reserve Development to Surplus	-0	-2	-2	-2	-3
#12 Two-Year Reserve Development to Surplus	-2	-3	-3	-4	-3
#13 Estimated Current Reserve Deficiency to Surplus	-1	3	-3	-2	2

Ratio No. 5 measures the company's profitability over the previous two-year period. The exceptional results during the examination period are due to a combination of a high expense ratio, storm damage, and a few unexpectedly large claims (water damage, fire, and a house explosion).



Ratio No. 6 measures the company's investment yield for the current year. The exceptional result in all five years was largely due to the low interest rate environment and investment expenses.

### Growth of Ellington Mutual Insurance Company

Year	Admitted Assets	Liabilities	Surplus as Regards Policyholders	Net Income
2020	\$7,057,076	\$2,997,857	\$4,059,219	\$ (42,169)
2019	6,690,507	2,670,197	4,020,310	(389,063)
2018	6,940,533	2,791,251	4,149,282	458,627
2017	6,439,850	2,672,123	3,767,727	(504,906)
2016	6,237,008	2,477,450	3,759,558	233,867
2015	5,507,165	2,367,634	3,139,531	10,388

Year	Gross Premium Written	Net Premium Written	Premium Earned	Loss and LAE Ratio	Expense Ratio	Combined Ratio
2020	\$4,493,286	\$3,063,665	\$2,979,492	59.0%	41.7%	100.7%
2019	4,490,708	3,009,117	2,933,574	78.0	39.2	117.2
2018	4,401,958	2,771,447	2,805,640	42.7	42.7	85.4
2017	4,408,619	2,735,145	2,529,571	76.8	41.8	118.6
2016	4,070,957	2,478,017	2,328,682	44.8	44.6	89.4
2015	3,831,189	2,218,295	2,112,784	55.3	46.1	101.4

During the five-year period under examination, Ellington Mutual Insurance Company's assets increased 13.15%, liabilities increased 21%, and surplus increased 7.97%. For 2020, the company reported a combined ratio of 100.7% and net income of \$(42,169). Both figures were improvements over 2019. Operating results have been held back by an expense ratio that has averaged 42% over the exam period and higher claim numbers in 2017 and 2019 due to severe weather and water damage. The loss ratios in 2017 and 2019 were over 20 points higher than the other three years as losses drove the combined ratio to exam period highs of 118.6 and 117.2.

**Reconciliation of Surplus per Examination**

No adjustments were made to surplus as a result of the examination. The amount of surplus reported by the company as of December 31, 2020, is accepted.

## VI. SUMMARY OF EXAMINATION RESULTS

### Compliance with Prior Examination Report Recommendations

There were two specific comments and recommendations in the previous examination report. Comments and recommendations contained in the last examination report and actions taken by the company are as follows:

1. Testing of Disaster Recovery and Business Continuity Plans—It is recommended that, at a minimum, the company annually conduct a “tabletop” exercise to simulate a disaster to ensure that the disaster recovery and business continuity plans can be effectively executed.

Action—Compliance.

2. Report on Executive Compensation—It is recommended that the company report all gross direct and indirect compensation paid or accrued during the year on its Report on Executive Compensation.

Action—Compliance.

### **Summary of Current Examination Results**

This section contains comments and elaboration on those areas where adverse findings were noted or where unusual situations existed. Comment on the remaining areas of the company's operations is contained in the examination work papers.

### **Board Committee Meeting Minutes**

The board of directors has six committees that meet at various times throughout the year. The examination found that board of director meeting minutes were being taken and maintained as required; however, this was not occurring consistently with all board committee meeting minutes. It is recommended that all board committee meeting minutes be recorded and retained as required.

## **VII. CONCLUSION**

Ellington Mutual Insurance Company is a mutual insurance company located in Hortonville, Wisconsin. The company's main products are Homeowners and Farmowners Multiple Peril followed by Commercial Multiple Peril, Allied Lines, and Fire. During the five-year period under examination, Ellington Mutual Insurance Company's assets increased 13.15%, liabilities increased 21%, and surplus increased 7.97%. For 2020, the company reported a combined ratio of 100.7% and net income of \$(42,169). Both figures were improvements over 2019. The company reported admitted assets of \$7.06 million, liabilities of \$3 million, and policyholders' surplus of \$4.06 million for 2020.

Operating results have been held back by an expense ratio that has averaged 42% over the exam period and higher claim numbers in 2017 and 2019 due to severe weather and water damage. The loss ratios in 2017 and 2019 were over 20 points higher than the other three years under examination as losses drove the combined ratio to exam period highs of 118.6 and 117.2.

The current examination resulted in one recommendation related to the lack of minutes being kept and maintained within board of directors committee meetings.

## VIII. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 18 - Board Committee Meeting Minutes— It is recommended that all board committee meeting minutes be recorded and retained as required.

## IX. ACKNOWLEDGMENT

The courtesy and cooperation extended during the course of the examination by the officers and employees of the company are acknowledged.

In addition to the undersigned, the following representatives of the Office of the Commissioner of Insurance, State of Wisconsin, participated in the examination:

<b>Name</b>	<b>Title</b>
Mike Miller	Insurance Financial Examiner
Eleanor Lu, CISA	IT Specialist
Karl Albert, CFE	Quality Control Specialist
Jerry DeArmond, CFE	Reserve Specialist

Respectfully submitted,



Kenton Harrison  
Examiner-in-Charge