

Report  
of the  
Examination of  
Fall Creek Mutual Insurance Company  
Fall Creek, Wisconsin  
As of December 31, 2018

## TABLE OF CONTENTS

	<b>Page</b>
I. INTRODUCTION .....	1
II. REINSURANCE.....	7
III. FINANCIAL DATA .....	10
IV. SUMMARY OF EXAMINATION RESULTS .....	15
V. CONCLUSION .....	27
VI. SUMMARY OF COMMENTS AND RECOMMENDATIONS .....	28
VII. ACKNOWLEDGMENT .....	29



# State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

*Tony Evers, Governor*  
*Mark V. Afable, Commissioner*

*Wisconsin.gov*

August 1, 2019

125 South Webster Street • P.O. Box 7873  
Madison, Wisconsin 53707-7873  
Phone: (608) 266-3585 • Fax: (608) 266-9935  
ociinformation@wisconsin.gov  
oci.wi.gov

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:

FALL CREEK MUTUAL INSURANCE COMPANY  
Fall Creek, Wisconsin

and the following report thereon is respectfully submitted:

## I. INTRODUCTION

The previous examination of Fall Creek Mutual 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.

In addition to auditing, the public accounting firm performs non-auditing services for the company, including bookkeeping assistance in connection with the year-end close, assistance with the preparation of the annual statement, and tax return preparation. On November 23, 2010, an exemption was granted by the Commissioner, pursuant to s. Ins 50.08 (5), Wis. Adm. Code, permitting the independent auditor to perform this non-audit work for the company.

The company was organized as a town mutual insurance company on January 18, 1875, under the provisions of the then existing Wisconsin Statutes. The original name of the company was the Fall Creek Farmers Mutual Fire Insurance Company. Subsequent amendments to the company's articles and bylaws changed the company's name to that presently used.

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

Barron	Dunn
Buffalo	Eau Claire
Clark	Jackson
Chippewa	Trempealeau

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 on large farmowners' policies and three years on all other policies with premiums payable on the advance premium basis. The company also charges a policy fee equal to \$15 for HO-4 and personal property business, \$25 for homeowner, dwelling fire, mobile fire, farm fire, hobby farm, and commercial business, and \$35 for farmowner business. In addition, the company charges an installment fee of \$3 per installment if premiums are not paid on an annual basis.

Business of the company is acquired through two 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 new business	14%
All renewals and endorsements	12

Loss adjustments are performed by the executive committee as part of their duties, as agents have no authority to adjust losses. Losses in excess of \$5,000.00 are adjusted by an independent adjuster. Directors adjusting losses receive \$20.00 per hour for each loss adjusted plus \$0.50 per mile for travel allowance.

Policyholders may participate in the management and control of the company by attending and voting at all annual or special meetings of the members. No member may vote by proxy. The annual meeting of the company for the election of directors and special meetings of the company are held in accordance with its articles of incorporation.

**Board of Directors**

The board of directors consists of 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 Grinder	Retired	Eau Claire, WI	2021
Dennis Schacht	Retired	Fall Creek, WI	2020
Cory Schalinske	Police Lieutenant	Augusta, WI	2020
Dean Solie	Retired	Augusta, WI	2021
Aaron Vizer	Self-employed, Heavy equipment repair	Boyd, WI	2021
Katie Wehling	Teacher	Mondovi, WI	2022
Mark Zuber	Retired Ag Instructor	Eleva, WI	2022

Members of the board currently receive \$150.00 for each meeting attended, \$20.00 per hour for any office work performed, and \$0.50 per mile for travel expenses.

Section 612.13 (1m), Wis. Stat., requires:

- (1) If a town mutual has fewer than nine directors, no more than one director may be an employee or representative of the town mutual; and
- (2) Employees and representatives of a town mutual may not constitute a majority of its board.

The company is in compliance with these requirements.

## Officers

Officers are elected by the board of directors from among its members and hold office for one year or until their successors are duly elected and qualified. Officers serving at the present time are as follows:

Name	Office	2018 Compensation*
Dennis Schacht	President	\$ 3,050
Cory Schalinske	Vice President	750
Dean Solie	Treasurer	2,950
Mark Zuber	Secretary	2,840
Jane Sather	Manager	76,714

\* Reported compensation is the total compensation paid by the insurer for the year and includes salary, commissions, director fees and rental income as applicable.

## Committees of the Board

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

### Adjusting Committee

Dennis Schacht, Chair  
Mark Zuber  
Jane Sather

### Audit Committee

Dean Solie, Chair  
Dennis Schacht  
Mark Zuber  
Jane Sather

### Forms & Rates Committee

Dennis Schacht, Chair  
Mark Zuber  
Jane Sather  
Cory Schalinske  
Dean Solie  
Aaron Vizer

### Underwriting Committee

Dennis Schacht, Chair  
Mark Zuber  
Jane Sather  
Cory Schalinske  
Dean Solie  
Aaron Vizer  
Debra Grinde  
Katie Wehling

### Inspection Committee

Dennis Schacht, Chair  
Mark Zuber  
Jane Sather  
Aaron Vizer

### Personnel Committee

Dennis Schacht, Chair  
Mark Zuber  
Jane Sather  
Debra Grinde  
Cory Schalinske  
Katie Wehling

### Sunshine Committee

Dennis Schacht, Chair  
Mark Zuber  
Jane Sather

### Building Maintenance Committee

Dennis Schacht, Chair  
Mark Zuber  
Jane Sather

## Growth of Company

The growth of the company during the examination period as compiled from its filed annual statements was as follows:

Year	Net Premiums Earned	Policies In Force	Net Income	Admitted Assets	Policyholders' Surplus
2018	\$671,702	1,166	\$192,100	\$3,509,382	\$2,828,330
2017	656,253	1,160	(66,928)	3,329,459	2,663,110
2016	607,704	1,189	39,474	3,289,366	2,592,825
2015	560,563	1,226	50,958	3,065,858	2,393,302
2014	567,203	1,265	43,015	3,108,518	2,409,780

The ratios of gross and net premiums written to policyholders' surplus during the examination period were as follows:

Year	Gross Premiums Written	Net Premiums Written	Policyholders' Surplus	Writings Ratio Net	Writings Ratio Gross
2018	\$1,126,997	\$681,730	\$2,828,330	24%	40%
2017	1,111,261	657,474	2,663,110	25	42
2016	1,140,944	612,520	2,592,825	24	44
2015	1,176,173	562,385	2,393,302	23	49
2014	1,154,815	607,026	2,409,780	25	48

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	\$236,483	\$316,972	\$671,702	35%	47%	82%
2017	501,947	294,371	656,253	76	45	121
2016	307,507	294,560	607,704	51	48	99
2015	323,723	272,627	560,563	58	48	106
2014	298,986	282,028	567,203	53	46	99

Despite the net loss in 2017, the overall trend in net income has been favorable over the examination period. The company posted improvements in its net loss ratio compared to the previous five-year period (the average net loss ratio for 2014 – 2019 was 55%, as compared to 59% for 2009 – 2013). In addition, steady growth in investment income earned (since 2016), an increase in policy and installment fees (since 2015), and unrealized capital gains also contributed to the favorable trend.

During the period under examination, the company's policies-in-force decreased by 7.8% while the net writings ratio has remained relatively stable. As the company now has two proactive

agents, the company has begun to non-renew problematic properties. This has caused some of the decrease in policies in force, which is partially offset by new policies written. It is believed that this will be beneficial to the company in the long term.



## II. REINSURANCE

The examiners' review of the company's reinsurance portfolio revealed there is currently one ceding treaty with six coverage sections. The treaty contained proper insolvency clauses. The treaty 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 1st by giving to the other party at least ninety (90) days advance notice in writing
1. Type of contract:	Class AX1 – Casualty Excess of Loss
Lines reinsured:	Casualty (subject to exclusions)
Company's retention:	\$10,000 each and every loss occurrence, including loss adjustment expenses
Coverage:	100% in excess of the company's retention each and every loss occurrence, including loss adjustment expenses, subject to a maximum of: <ul style="list-style-type: none"><li>a) \$1,000,000 per occurrence, single limit or combined for bodily injury and property damage liability.</li><li>b) \$1,000,000 split limits, in any combination of bodily injury and property damage liability.</li><li>c) \$25,000 for medical payments, per person.</li><li>d) \$25,000 for medical payments per accident for Personal Lines.</li></ul>
Reinsurance premium:	50% of written premium
Ceding commission:	None
2. Type of contract:	Class B-1 – First Surplus
Lines reinsured:	All property lines (subject to exclusions)
Company's retention:	\$450,000
Coverage:	When the liability in respect to the risk exceeds the company's retention, the company may cede on a pro rata basis and the reinsurer shall accept up to \$2,000,000 of pro rata reinsurance coverage of such a risk. Notwithstanding the above, any single location which is in excess of \$2,500,000 of property coverage

may be submitted to the reinsurer for special acceptance. When a cession has been made hereunder, the reinsurer shall be liable for the pro rata portion of each and every loss, including loss adjustment expense, corresponding to the amount of the risk ceded by the company as it bears to the company's gross liability on such a risk.

- |                         |  |
|-------------------------|--|
| Reinsurance premium:    | Percentage of written premium varies by the total risk formula: (Total Risk – Company's Retention)/Total Risk.   |
| Commission rate:        | 20% of written premium   |
| Profit commission rate: | 15% of annual net profit to reinsurer  |
| 3. Type of contract:    | Class C-1 – First Per Risk Excess of Loss  |
| Lines reinsured:        | All property lines (subject to exclusions)   |
| Company's retention:    | \$75,000 per risk per loss occurrence  |
| Coverage:               | 100% of \$75,000 per risk per loss occurrence in excess of the company's retention.  |
| Reinsurance premium:    | 8.08% of written premium   |
| Ceding commission:      | None   |
| 4. Type of contract:    | Class C-2 – Second Per Risk Excess of Loss   |
| Lines reinsured:        | All property lines (subject to exclusions)   |
| Company's retention:    | \$150,000 per risk per loss occurrence   |
| Coverage:               | 100% of \$300,000 per risk per loss occurrence in excess of the company's retention.   |
| Reinsurance premium:    | 4% of written premium  |
| Ceding commission:      | None   |
| 5. Type of contract:    | Class D-1 – First Aggregate Excess of Loss   |
| Lines reinsured:        | All property lines (subject to exclusions)   |
| Attachment point:       | 75% of company's net premium written   |
| Coverage:               | 100% of the company's aggregate net losses, including loss adjustment expenses, exceeding 75% of the company's net premiums written, up to 65% of net premiums written |
| Reinsurance premium:    | 6.45% of written premium   |
| Ceding commission:      | None   |
| 6. Type of contract:    | Class D-2 – Second Aggregate Excess of Loss  |

Lines reinsured:	All property lines (subject to exclusions)
Attachment point percentage:	140% of company's net premium written
Coverage:	100% of the company's aggregate net losses, including loss adjustment expenses, exceeding 140% of the company's net premiums written
Reinsurance premium:	2% of written premium
Ceding commission:	None

### **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."

**Fall Creek Mutual 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 in company's office	\$ 100	\$	\$	\$ 100
Cash deposited in checking	168,870			168,870
Cash deposited at interest	905,365			905,365
Bonds	910,379			910,379
Stocks and mutual fund investments	1,231,846			1,231,846
Real estate	22,221			22,221
Premiums, agents' balances and installments:				
In course of collection	3,339		172	3,167
Deferred and not yet due	217,303			217,303
Investment income accrued		12,583		12,583
Reinsurance recoverable on paid losses and LAE	524			524
Electronic data processing equipment	4,811			4,811
Fire dues recoverable	15			15
Reinsurance premium recoverable	5,237			5,237
Other expense related assets:				
Reinsurance commission receivable	26,961			26,961
Furniture and fixtures	<u>4,176</u>	<u>          </u>	<u>4,176</u>	<u>          </u>
Totals	<u>\$3,501,147</u>	<u>\$12,583</u>	<u>\$4,348</u>	<u>\$3,509,382</u>

**Fall Creek Mutual Insurance Company  
Statement of Assets and Liabilities (cont.)  
As of December 31, 2018**

**Liabilities and Surplus**

Net unpaid losses	\$ 50,761
Loss adjustment expenses unpaid	1,200
Commissions payable	46,742
Federal income taxes payable	4,277
Unearned premiums	473,629
Reinsurance payable	58,793
Other liabilities:	
Expense related:	
Accounts payable	273
Accrued salaries and wages	33,644
Nonexpense related:	
Premiums received in advance	<u>11,733</u>
Total Liabilities	681,052
Policyholders' Surplus	<u>2,828,330</u>
Total Liabilities and Surplus	<u>\$3,509,382</u>

**Fall Creek Mutual Insurance Company  
Statement of Operations  
For the Year 2018**

Net premiums and assessments earned		\$671,702
Deduct:		
Net losses incurred	\$196,308	
Net loss adjustment expenses incurred	40,175	
Net other underwriting expenses incurred	<u>316,972</u>	
Total losses and expenses incurred		<u>553,455</u>
Net underwriting gain (loss)		118,247
Net investment income:		
Net investment income earned	32,624	
Net realized capital gains (losses)	<u>15,013</u>	
Total investment gain (loss)		47,637
Other income (expense):		
Policy and installment fees		36,779
Net income (loss) before federal income taxes		202,663
Federal income taxes incurred		<u>10,563</u>
Net Income (Loss)		<u>\$192,100</u>

**Fall Creek Mutual 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:

	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>
Surplus, beginning of year	\$2,663,110	\$2,592,825	\$2,393,302	\$2,409,780	\$2,190,794
Net income (loss)	192,100	(66,928)	39,474	50,958	43,015
Net unrealized capital gain or (loss)	(28,834)	131,529	161,413	(62,951)	174,905
Change in non-admitted assets	<u>1,954</u>	<u>5,684</u>	<u>(1,364)</u>	<u>(4,485)</u>	<u>1,066</u>
Surplus, End of Year	<u>\$2,828,330</u>	<u>\$2,663,110</u>	<u>\$2,592,825</u>	<u>\$2,393,302</u>	<u>\$2,409,780</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. Book Value of Bonds—It is recommended that the company refrain from investing in individual corporate issues that would exceed 3% of admitted assets without prior approval from the Commissioner per s. Ins 6.20 (6) (f) 1, Wis. Adm. Code.

Action—Compliance.

2. Amounts Withheld for the Account of Others—It is recommended that the company properly report Amounts Withheld for Account of Others pursuant to Town Mutual Annual Statement Instructions.

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 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 producer shall act in a fiduciary capacity with respect to all premiums collected by the producer.

### **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 the position. 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 potential conflicts appropriately disclosed.

### **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	\$250,000
Workers compensation:	
Employee injury	Statutory
Employee liability:	
Each accident	250,000
Each employee	250,000
Policy limit	250,000

## **Underwriting**

The company has a written underwriting guide. The guide covers all the lines of business that the company is presently writing.

The company has a formal inspection procedure for both new and renewal business. A sampling of new applications and renewal business is inspected by committee members who are independent of the risk under consideration and review.

## **Claims Adjusting**

The company has an adjusting committee consisting of at least three directors as required by s. 612.13 (4), Wis. Stat. The function of this committee is to adjust or supervise the adjustment of losses.

## **Accounts and Records**

The examiners' review of the company's records indicated that the company is in compliance with s. Ins 13.05, Wis. Adm. Code, which sets forth the minimum standards for the handling of cash and recording of cash transactions by town mutual insurance companies. The examiners noted the following:

1. A proper policy register is maintained.
2. A proper cash receipts journal is maintained.
3. A proper cash disbursements journal is maintained.
4. A proper general journal is maintained.
5. A proper general ledger is maintained.

An extensive review was made of income and disbursement items. Cash receipts were traced from source records and the proper recording and eventual deposit thereof ascertained. Negotiated checks issued during the period under examination were reviewed 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. Company personnel back up the computers daily 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, the loss of information on its computer, the loss of a key employee, or the destruction of its office building. The company has developed a business continuity plan. The company's business continuity plan appears to be adequate.

### **Invested Assets**

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

- (1) Securities kept under a custodial agreement or trust arrangement with a bank or banking and trust company may be issued in the name of a nominee of the bank or banking and trust company; and
- (2) Any insurer may acquire and hold securities in bearer form.

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

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

The company is in compliance with these requirements.

### **Investment Rule Compliance**

The investment rule for town mutual insurers allows a company to invest in common stocks, common stock mutual funds, and other higher risk investments (referred to as "Type 2") provided that the town mutual has a sufficient amount of lower risk investments (referred to as "Type

1"). A town mutual may invest in Type 2 securities only if it already has sufficient Type 1 investments.

Type 1 investments must equal or exceed the greater of items 1, 2, or 3.

1. Liabilities plus \$300,000	\$ 981,052
2. Liabilities plus 33% of gross premiums written	1,052,961
3. Liabilities plus 50% of net premiums written	1,021,917
4. Amount required (greater of 1, 2, or 3)	1,052,961
5. Amount of Type 1 investments as of 12/31/2018	<u>1,984,614</u>
6. Excess or (deficiency)	<u>\$ 931,653</u>

The company has sufficient Type 1 investments.

### **Investment Advisors**

The company utilizes the services of an investment advisor to assist in the management of its investment strategy. The agreement provided by the company did not contain certain appropriate provisions considered to be necessary for the protection of the company.

It is recommended that the company enter into an agreement with its investment advisor that includes, at a minimum: (1) a description of the scope and nature of services to be provided, (2) the standard of care to be provided, (3) how (or whether) the investment strategy (including asset allocations and any applicable limitations) incorporates the board approved investment policy, (4) the level of authority the advisor exercises over the insurer's portfolio (discretionary or non-discretionary), (5) a description of all types of compensation to be paid to the investment advisor, and (6) a description as to how investment transactions, holdings, and portfolio performance will be communicated to the company's board of directors (including the frequency, content, and means of reporting). A copy of the executed agreement, along with evidence of board approval, shall be submitted to the Office of the Commissioner of Insurance within 60 days of the date of this report.

## ASSETS

### Cash and Invested Cash

**\$1,074,335**

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

Cash in company's office	\$ 100
Cash deposited in banks—checking accounts	168,870
Cash deposited in banks at interest	<u>905,365</u>
Total	<u>\$1,074,335</u>

Cash in company's office at year-end represents the company's petty cash fund. The examiners relied on the testing performed by the company's public accounting firm to confirm this balance.

Cash deposited in banks subject to the company's check and withdrawal consists of one account maintained in a local bank. Verification of checking account balances was made by obtaining confirmations directly from the depository and reconciling the amounts shown thereon to company records.

The review of the cash deposited in banks at interest found that the company had misclassified two money market mutual fund investments as savings accounts on the Schedule B. Mutual funds, including money market mutual funds, are required to be reported on Schedule D per the Town Mutual Annual Statement Instructions. This resulted in an overstatement of the line item for "Cash Deposited at Interest" in the amount of \$71,805, with a corresponding understatement of the line item for "Stocks and Mutual Fund Investments" of the same amount. It is recommended that the company report money market mutual funds in accordance with the Town Mutual Annual Statement Instructions.

Cash deposited in banks represents the aggregate of 11 deposits in six depositories. Deposits were verified by direct correspondence with the respective depositories and by an actual count and inspection of certificates and/or passbooks. Interest received during the year 2018 totaled \$13,024. Rates of interest earned on cash deposits ranged from 0.15% to 2.58%. Accrued interest on cash deposits totaled \$1,608 at year-end.

**Book Value of Bonds****\$910,379**

The above asset consists of the aggregate book value of bonds held by the company as of December 31, 2018. Bonds owned by the company are held in a custodial account with the company's custodian.

The company's investment in bonds was in conformance with Wisconsin Statutes and the rules of the Commissioner of Insurance regarding investments made by town mutual insurers.

Bonds were verified by review of the custodian's year-end statement of the company's investments. Interest received during 2018 on bonds amounted to \$30,306 and was traced to cash receipts records. Accrued interest of \$9,083 at December 31, 2018, was verified and allowed as a nonledger asset.

**Stocks and Mutual Fund Investments****\$1,231,846**

The above asset consists of the aggregate market value of stocks and mutual funds held by the company as of December 31, 2018. Stocks owned by the company are either located in a bank safety deposit box or held in a custodial account with the company's custodian. Stock certificates held in the company's safety deposit box were verified through review of the company's records. Stocks held in the company's custodial account were verified by review of the custodian's year-end statement of the company's investments.

The company's investment in stocks and mutual funds was in conformance with Wisconsin Statutes and the rules of the Commissioner of Insurance regarding investments made by town mutual insurers.

Dividends received during 2018 on stocks and mutual funds amounted to \$27,444 and were traced to cash receipts records. Accrued dividends of \$1,892 at December 31, 2018, were checked and allowed as a nonledger asset.

**Book Value of Real Estate****\$22,221**

The above amount represents the company's investment in real estate, net of depreciation, as of December 31, 2018. The company's real estate holdings consisted of the home office building.

The examiners relied on the testing performed by the company's public accounting firm to confirm this balance. Adequate hazard insurance was carried on the real estate and contents as noted under the caption "Fidelity Bond and Other Insurance." The company's investment in real estate and related items was in conformance with the Wisconsin Statutes and the rules of the Commissioner of Insurance regarding investments made by town mutual insurers. Real estate depreciation is calculated using the straight-line method.

**Premiums, Agents' Balances in Course of Collection** **\$3,167**

This asset represents the amounts due from agents or policyholders which are not in excess of 90 days past due at year end. The examiners relied on the testing performed by the company's public accounting firm to confirm this balance.

**Premiums Deferred and Not Yet Due** **\$217,303**

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** **\$12,583**

Interest due and accrued on the various assets of the company at December 31, 2018, consists of the following:

Cash Deposited at Interest	\$ 1,608
Bonds	9,083
Stocks and Mutual Funds	<u>1,892</u>
Total	<u>\$12,583</u>

**Reinsurance Recoverable on Paid Losses and LAE** **\$524**

The above asset represents recoveries due to the company from reinsurance on losses and loss adjusting expenses which were paid on or prior to December 31, 2018. A review of year-end accountings with the reinsurer verified the above asset.

**Electronic Data Processing Equipment** **\$4,811**

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



**Fire Dues Recoverable** **\$15**

This asset represents the amount overpaid to the State of Wisconsin for 2018 fire dues.

**Reinsurance Premium Recoverable** **\$5,237**

The asset represents the amount of reinsurance premium that the company had overpaid as of December 31, 2018.

**Reinsurance Commission Receivable** **\$26,961**

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** **\$50,761**

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.

	<b>Company Estimate</b>	<b>Examiners' Development</b>	<b>Difference</b>
Incurred but unpaid losses	\$118,414	\$55,931	\$62,483
Less: Reinsurance recoverable on unpaid losses	<u>67,653</u>	<u>10,411</u>	<u>57,242</u>
Net Unpaid Losses	<u>\$ 50,761</u>	<u>\$45,520</u>	<u>\$ 5,241</u>

The above difference of \$5,241 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** **\$1,200**

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 based on the history of the amounts of claims incurred at year-end but unpaid and the related adjusting expenses. The examiners relied on the testing performed by the company's public accounting firm to confirm this balance.

**Commissions Payable** **\$46,742**

This liability represents the commissions payable to agents as of December 31, 2018. The examiners reviewed the company's commission calculation and found the liability to be reasonably stated.

**Federal Income Taxes Payable** **\$4,277**

This liability represents the balance payable at year-end for federal income taxes incurred prior to December 31, 2018.

The examiners relied on the testing performed by the company's public accounting firm to confirm this balance.

**Unearned Premiums** **\$473,629**

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

**Reinsurance Payable** **\$58,793**

This liability consists of amounts due to the company's reinsurer at December 31, 2018, relating to transactions which occurred on or prior to that date. This amount consisted of a deferred reinsurance balance of \$58,793 that was traced to the year-end deferred premium report supplied by the reinsurer.

**Accounts Payable** **\$273**

This liability consists of amounts due to creditors for miscellaneous expenses at December 31, 2018. The examiners relied on the testing performed by the company's public accounting firm to confirm this balance.

**Accrued Salaries and Wages****\$33,644**

This liability consists of the following accruals:

2018 payroll	\$ 2,281
Vacation	5,702
Sick leave	<u>25,661</u>
Total	<u>\$33,644</u>

The vacation and sick leave days were based on information provided by the company.

**Premiums Received in Advance****\$11,733**

This liability represents the total premiums received prior to year-end for policies with effective dates after December 31, 2018. The examiners reviewed 2018 premium and cash receipt records to verify the accuracy of this liability.

## **V. CONCLUSION**

Fall Creek Mutual Insurance Company is a town mutual insurer with an authorized territory of eight counties in northwestern Wisconsin. The company has been in business over 144 years providing property and casualty insurance to its policyholders.

Despite the net loss in 2017, the overall trend in net income has been favorable over the examination period. The company posted improvements in its net loss ratio compared to the previous five-year period (the average net loss ratio for 2014 – 2019 was 55%, as compared to 59% for 2009 – 2013). In addition, steady growth in investment income earned (since 2016), an increase in policy and installment fees (since 2015), and unrealized capital gains also contributed to the favorable trend.

During the period under examination, the company's policies in force decreased by 7.8% while the net writings ratio has remained relatively stable. As the company now has two proactive agents, the company has begun to non-renew problematic properties. This has caused some of the decrease in policies in force, which is partially offset by new policies written. It is believed this will be beneficial to the company in the long term.

The prior exam resulted in two recommendations, with which the company has complied. The current examination resulted in two examination recommendations and no examination adjustments or reclassifications.

## VI. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 19 - Investment Advisors—It is recommended that the company enter into an agreement with its investment advisor that includes, at a minimum: (1) a description of the scope and nature of services to be provided, (2) the standard of care to be provided, (3) how (or whether) the investment strategy (including asset allocations and any applicable limitations) incorporates the board approved investment policy, (4) the level of authority the advisor exercises over the insurer's portfolio (discretionary or non-discretionary), (5) a description of all types of compensation to be paid to the investment advisor, and (6) a description as to how investment transactions, holdings, and portfolio performance will be communicated to the company's board of directors (including the frequency, content, and means of reporting). A copy of the executed agreement, along with evidence of board approval, shall be submitted to the Office of the Commissioner of Insurance within 60 days of the date of this report.
  
2. Page 20 - Cash and Invested Assets—It is recommended that the company report money market mutual funds in accordance with the Town Mutual Annual Statement Instructions.

## VII. ACKNOWLEDGMENT

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

In addition to the undersigned, Gene Renard, CFE, of the Office of the Commissioner of Insurance, State of Wisconsin, participated in the examination.

Respectfully submitted,

A handwritten signature in black ink that reads "Joshua Daggett". The signature is written in a cursive style with a long horizontal stroke at the end.

Joshua Daggett  
Examiner-in-Charge