Report

of the

Examination of

Holland Mutual Fire Insurance Company

Cedar Grove, Wisconsin

As of December 31, 2009

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State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

Jim Doyle, *Governor*
Sean Dilweg, *Commissioner*

Wisconsin.gov

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

July 1, 2010

Honorable Sean Dilweg
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, 2009, of the affairs and financial condition of:

HOLLAND MUTUAL FIRE INSURANCE COMPANY
Cedar Grove, Wisconsin

and the following report thereon is respectfully submitted:

I. INTRODUCTION

The previous examination of Holland Mutual Fire Insurance Company (the company) was made in 2005 as of December 31, 2004. The current examination covered the intervening time period ending December 31, 2009, 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 was organized as a town mutual insurance company in June 1870, under the provisions of the then existing Wisconsin Statutes. The original name of the company was the Town Holland Farmers Mutual 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 was one amendment to the articles of incorporation and no amendments to the bylaws. In its amendment to the articles of incorporation, the company expanded the board of directors to nine members.

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: Ozaukee, Sheboygan, and Washington.

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 basis. The company also charges a policy fee equal to $30 for active farmowners, $20 for fire and extended coverage, $15 for homeowners, and $10 for rental.

Business of the company is acquired through 12 agents, 3 of whom are directors of the company. Agents are presently compensated for their services as follows:

Type of Policy	**Compensation**
All Policies	15%

Losses are usually adjusted by the Secretary and approved by the board. For most losses adjusted a payment of $20 is made, though more may be paid for claims that take additional time. There is no separate travel allowance.

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

Board of Directors

The board of directors consists of nine members divided into three classes. One class is elected at each annual meeting for a term of three years. Vacancies on the board may be filled by the directors for the interim to the next annual meeting when a director shall be chosen for the unexpired term.

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

Name	Principal Occupation	Residence	Expiry
Marv Potter*	Driver	Oostburg, Wisconsin	2011
James Schueller	Farmer	Belgium, Wisconsin	2011
Mark Navis	Farmer	Cedar Grove, Wisconsin	2011
Larry Bares*	Rural postal delivery	Belgium, Wisconsin	2012
Jerome Grotenhuis*	Farmer	Cedar Grove, Wisconsin	2012
David Otte	Retired	Cedar Grove, Wisconsin	2012
Lloyd Ter Maat	Carpenter, contractor	Cedar Grove, Wisconsin	2013
Stanley Lammers	Farmer	Oostburg, Wisconsin	2013
Jan Rauerdink	Farmer	Oostburg, Wisconsin	2013

Directors who are also agents are identified with an asterisk.

Members of the board currently receive $50 for each meeting attended and current rates approved by the Internal Revenue Service 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	2009 Compensation
Lloyd Ter Maat	President	$ 2,030
Larry Bares	Vice-President	19,222*
Jerome Grotenhuis	Secretary/Manager	44,500*
Bill Thiel	Treasurer	5,000

* includes all compensation paid to agency associated with director.

Note: Reported compensation is the total compensation paid by the insurer for the year and includes salary, commissions, adjusting and director fees 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
Lloyd Ter Maat, Chair
Marv Potter
James Schueller
Mark Navis
Larry Bares
Jerome Grotenhuis
David Otte
Stanley Lammers
Jan Rauerdink

Investing Committee
Bill Thiel, Chair
Jim Schueller
Stan Lammers
Lloyd Ter Maat

Growth of Company

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

Year	Net Premiums Earned	Policies In Force	Net Income (Loss)	Admitted Assets	Policyholders' Surplus
2009	$236,349	1,279	$49,512	$721,325	$469,733
2008	225,804	1,279	(3,070)	693,719	432,312
2007	231,961	1,243	(209)	689,142	429,828
2006	226,406	1,216	47,426	681,909	421,649
2005	217,267	1,236	51,082	609,826	367,075
2004	201,562	1,251	36,832	515,661	304,462

The company has seen its surplus grow each year over the past five years reporting an increase of 54% since the last examination while net premiums earned increased 17%. The company reports of policies in force have been overstated during this examination period. There is further information about this in Accounts and Records.

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
2009	$443,711	$239,323	$469,733	51%	94%
2008	441,781	232,591	432,312	54	102
2007	428,557	232,057	429,828	54	100
2006	417,670	234,972	421,649	56	99
2005	412,656	229,799	367,075	63	112
2004	388,952	209,517	304,462	69	128

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**
2009	$ 96,591	$113,723	$236,349	41%	47%	88%
2008	129,002	124,874	225,804	57	54	111
2007	148,903	115,377	231,961	64	50	114
2006	89,566	117,082	226,406	39	50	89
2005	65,648	120,112	217,267	30	52	82
2004	75,082	110,840	201,562	37	53	90

II. REINSURANCE

The examiners' review of the company's reinsurance portfolio revealed there is currently one ceding treaty. The treaty contained a proper insolvency clause and complied with s. Ins 13.09 (3), Wis. Adm. Code, concerning maximum wind loss. Company retentions of risk complied with s. Ins 13.06, Wis. Adm. Code.

Reinsurer:	Wisconsin Reinsurance Corporation (WRC)
Effective date:	January 1, 2010, continuous
Termination provisions:	Either party may terminate this contract as of any subsequent January 1 by giving to 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:	Class A (Liability) – Casualty Excess of Loss Reinsurance
	Lines reinsured:	All casualty business written by the company
	Company's retention:	$1,000 in respect to each and every loss occurrence
	Coverage:	100% of each and every loss occurring on the business covered by this contract, including loss adjustment expenses in excess of the retention, subject to maximum policy limits of $1,000,000 per occurrence, $1,000,000 split limits, $25,000 for medical payments, per person; and $25,000 per accident
	Reinsurance premium:	75% of casualty premium written for each and every policy issued Annual deposit premium of $62,250 Minimum premium is 75% of deposit
	Ceding commission:	None
2.	Type of contract:	Class B First Surplus Reinsurance
	Lines reinsured:	All property business written by the company
	Company's retention:	$150,000 per ceded risk or at least 50% on a pro rata basis per ceded risk when the company's net retention is $150,000 or less in respect to a risk. The company shall also retain on each loss a per loss retention of 10% of the loss and LAE otherwise recoverable hereunder.
	Coverage:	Reinsurer shall accept up to $800,000 on a pro rata basis when the company's net retention is $150,000 or more in respect to a risk. When the company's net retention is $150,000 or less in respect to a risk, the company may cede on a pro rata basis up to 50% of such risk. 90% per loss of covered losses and LAE.

	Reinsurance premium:	Pro rata portion of all premiums, fees, and assessments charged by the company, corresponding to the amount of each risk ceded
	Ceding commission:	15% direct commission and 15% commission on profit
3.	Type of contract:	C-1 Excess of Loss – First Layer
	Lines reinsured:	All property business written by the company
	Company's retention:	$30,000 per occurrence No annual aggregate deductible
	Coverage:	100% of any loss, including loss adjustment expense, in excess of $30,000, subject to a limit of liability to the reinsurer of $60,000
	Reinsurance premium:	Based on experience over the past four years with load factor of 125% Minimum rate: 7% of current net premiums written Maximum rate: 18.00% of current net premiums written Current rate: 7.39% Premium deposit: $23,604 Minimum premium is 75% of deposit
	Ceding commission:	None
4.	Type of contract:	C-2 Excess of Loss – Second Layer
	Lines reinsured:	All property business written by the company
	Company's retention:	$90,000 per occurrence
	Coverage:	100% of any loss, including loss adjustment expense, in excess of $90,000, subject to a limit of liability to the reinsurer of $60,000
	Reinsurance premium:	8.5% of the company's current net premiums written in respect to the business covered Premium deposit: $27,149 Minimum premium is 75% of deposit
	Ceding commission:	None
5.	Type of contract:	First Aggregate Excess of Loss Reinsurance
	Lines reinsured:	All business written by the company.
	Company's retention:	62.5% of net written premium (estimated at $212,594)
	Coverage:	100% of the amount by which the aggregate of the company's losses, including loss adjustment expenses exceed the retention with a limit of 52.5% of NWP (losses from 62.5% to 115% of NWP)

	Reinsurance premium:	Rate: 5.50% Minimum rate: 5.50% of current net premiums written Maximum rate: 14.00% of current net premiums written Premium deposit: $18,708 Minimum premium is 75% of deposit
6.	Type of contract:	Second Aggregate Excess of Loss Reinsurance
	Lines reinsured:	All business written by the company
	Company's retention:	115% of net written premium
	Coverage:	100% of the amount by which the aggregate of the company's losses, including loss adjustment expenses, exceed the retention
	Reinsurance premium:	Rate: 2.00% Premium deposit: $6,803 Minimum premium is 75% of deposit

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, 2009, 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."

Holland Mutual Fire Insurance Company
Statement of Assets and Liabilities
As of December 31, 2009

Assets	Ledger	Nonledger	Not Admitted	Net Admitted
Cash in checking	$ 57,350	$	$	$ 57,350
Cash deposited at interest	450,278			450,278
Stocks and mutual fund investments	117,273			117,273
Real estate	26,756			26,756
Premiums, agents' balances and installments:				
In course of collection	28,114			28,114
Deferred and not yet due	5,843			5,843
Investment income accrued		6,631		6,631
Reinsurance recoverable on paid losses and LAE	4,926			4,926
Reinsurance premium recoverable	14,485			14,485
Other expense-related assets:				
Reinsurance commission receivable	8,959			8,959
Other nonexpense-related assets:				
Policy fees receivable	710			710
Furniture and fixtures	2,544		2,544	
Other nonadmitted assets:				
Prepaid expenses	1,293		1,293	
Totals	$718,531	$6,631	$3,837	$721,325

Liabilities and Surplus

Net unpaid losses	$ 9,325
Unpaid loss adjustment expenses	150
Commissions payable	5,076
Fire department dues payable	11
Unearned premiums	218,710
Reinsurance payable	13,873
Amounts withheld for the account of others	1,523
Payroll taxes payable (employer’s portion)	439
Other liabilities:	
Expense-related:	
Accounts payable	455
Accrued property tax	2,030
Total liabilities	251,592
Policyholders' surplus	469,733
Total Liabilities and Surplus	$721,325

Holland Mutual Fire Insurance Company
Statement of Operations
For the Year 2009

Net premiums and assessments earned		$236,349
Deduct:		
Net losses incurred	$ 87,973	
Net loss adjustment expenses incurred	8,618	
Net other underwriting expenses incurred	113,723	
Total losses and expenses incurred		210,314
Net underwriting gain (loss)		26,035
Net investment income:		
Net investment income earned		11,937
Other income (expense):		
Policy fees		11,540
Net Income (Loss)		$ 49,512

Holland Mutual Fire Insurance Company
Reconciliation and Analysis of Surplus as Regards Policyholders
For the Five-Year Period Ending December 31, 2009

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:

	2009	**2008**	**2007**	**2006**	**2005**
Surplus, beginning of year	$432,312	$429,828	$421,649	$367,075	$304,462
Net income	49,512	(3,070)	(209)	47,426	51,082
Net unrealized capital gain or (loss)	(12,670)	6,560	8,017	7,052	12,411
Change in nonadmitted assets	579	(1,006)	371	96	(880)
Surplus, End of Year	$469,733	$432,312	$429,828	$421,649	$367,075

Reconciliation of Policyholders' Surplus

A reconciliation of the policyholders' surplus as reported by the company in its filed annual statement and as determined by the examination is detailed in the following schedule:

Policyholders' surplus per December 31, 2009, annual statement			$469,733
Item	**Increase**	**Decrease**	
Unearned premiums		$33,710	
Total		$33,710	
Increase to surplus per examination			33,710
Policyholders' Surplus per Examination			$503,443

Because of the change resulting from the examination, the company has had an increase of 65% in surplus since the prior examination.

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 the company establish a written inspection procedure for renewal business, whereby renewal business is inspected on a sample basis by members of the board of directors who are independent of the risk under consideration, and that the company consider whether the taking of photographs should be included as part of this procedure.

   Action—Compliance with this recommendation was deemed acceptable for this examination.

2. Underwriting—It is recommended that the company report its largest risk in the general interrogatories in accordance with the Town Mutual Annual Statement Instructions.

   Action—Compliance

3. Accounts and Records—It is recommended that the company's board of directors establish procedures for the review of bank reconciliations from time to time by members of the board of directors.

   Action—Compliance

4. Premiums Deferred and Not Yet Due—It is again recommended that the company calculate and record deferred premiums in accordance with the Town Mutual Annual Statement Instructions.

   Action—Compliance

5. Unpaid Loss Adjustment Expenses—It is again recommended that the company establish a logical methodology in determining unpaid loss adjustment expenses.

   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.

Currently the Treasurer of the company is not an elected member of the board, although it appears that he is an active participant in its meetings. If the Treasurer is going to be someone who is not on the board of directors, then the company will need to change its Articles of Organization to reflect that. It is recommended that the company follow its articles and bylaws when appointing officers or change the articles and bylaws to reflect the company's business needs.

Biographical data relating to company officers and directors have not been consistently reported in accordance with the provisions of s. Ins 6.52, Wis. Adm. Code. It is recommended that the company consistently report biographical data relating to company officers and directors in accordance with the provisions of s. Ins 6.52, Wis. Adm. Code.

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

Conflict of Interest

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

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: individual	$ 50,000
Aggregate	150,000
Worker's compensation:	
Employee injury	Statutory
Employee liability:	
Each accident	100,000
Each employee	100,000
Policy limit	500,000
Businessowners policy	
Liability: occurrence	300,000
Aggregate	600,000
Medical expense (per person)	5,000
Fire legal liability	50,000
Premises	
Building	121,219
Business personal property	8,658
Off-premises personal property	5,000
Rental damages	50,000
Business income (actual loss sust.)	5,000
Insurance company professional liability (per claim and aggregate)	500,000
Directors and officers (per claim and aggregate)	500,000

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 renewal business. It had been recommended at the last examination that the company have a formal inspection procedure on a sampling basis but the company feels that its current, less formal system has been adequate for its needs. The company sells its policies in a relatively small geographic area and the various directors remain familiar with most of the policyholders and the risks covered. The company is confident that this ongoing informal review has been as effective as a formal sampling procedure. The company's loss experience over the last several years seems consistent with that view.

Claims Adjusting

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

Accounts and Records

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

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

An extensive review was made of income and disbursement items. Cash receipts were traced from source records and the proper recording and eventual deposit thereof ascertained. Negotiated checks issued during the period under examination were reviewed, test checked for proper endorsement, and traced to cash records. The verification of assets and determination of liabilities were made as of December 31, 2009.

Examiners noted that the reported number of policies written appears to have been overstated in recent years. Based upon examination the policy count appears less than 950, but the policy count was reported in the annual statement as 1,279. Review of prior years indicates that this problem has been ongoing. The company did not compare its annual statement calculation of policies in force with the company's in force policies to verify accuracy nor did the calculation of policies in force appear to include all policy renewals that were cancelled by the customer after the new policy was written or midterm cancellations. It is recommended that the company accurately calculate and report the number of policies written.

The company is not audited annually by an outside public accounting firm.

EDP Environment

Company personnel were interviewed with respect to the company's electronic data processing environment. The company does not use computers to process its data, though the Treasurer uses his personal computer which he routinely backs up to maintain the financial ledger. The Treasurer provides current printed financial reports to the company.

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 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 for its current needs.

Examiners noted that the company keeps all of its critical records in fire-rated filing cabinets and keeps financial records offsite. This appears to be adequate for the current manual processes. Beyond that, however, it does not appear that the company has formalized plans for succession in the management of the company or taken into account the necessity of formalizing company procedures that have worked well on an informal or lightly documented basis. It is also not unlikely that the company will convert to a computer-based policy system in the next decade. This may best be done after the company has prepared for it. It is recommended that the company develop a business plan that documents succession planning, the underwriting review processes that are currently understood by the manager and agents, procedures for determining proportion ceded for First Surplus reinsurance, and a plan that shows what will need to be done when the company converts to a computer-based policy system.

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	$551,592
2.	Liabilities plus 33% of gross premiums written	398,017
3.	Liabilities plus 50% of net premiums written	371,254
4.	Amount required (greater of 1, 2, or 3)	551,592
5.	Amount of Type 1 investments as of 12/31/2009	507,628
6.	Excess or (deficiency)	$ (43,964)

The company does not have sufficient Type 1 investments.

In March of 1997 the company received permission from this office to keep its investments in NAMIC Insurance Company, Inc. (NAMICO), and Wisconsin Reinsurance Corporation (WRC) whether or not the company had a deficiency in Type 1 investments. Currently the company has Type 2 investments in common and preferred stocks with a statement value of $117,273. These Type 2 investments consist of $40,000 in Wisconsin Reinsurance Corporation preferred stock, $71,640 in WRC common stock and $5,633 in NAMICO common stock.

ASSETS

Cash and Invested Cash **$507,628**

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

Cash deposited in banks—checking accounts	$ 57,350
Cash deposited in banks at interest	450,278
Total	$507,628

The company does not have a petty cash fund.

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 review of the bank statement and reconciling the amounts shown thereon to company records.

Cash deposited in banks represents the aggregate of 12 deposits in 5 depositories. Deposits were verified by direct correspondence with the respective depositories or by an actual count and inspection of certificates and/or passbooks. Interest received during the year 2009 totaled $9,792 and was verified to company cash records. Rates of interest earned on cash deposits ranged from 1.85% to 3.19%. Accrued interest on cash deposits totaled $6,631 at year-end.

Stocks and Mutual Fund Investments **$117,273**

The above asset consists of the aggregate market value of stocks and mutual funds held by the company as of December 31, 2009. Stocks owned by the company are located in a safety deposit box.

Stock certificates were physically examined by the examiners. There were no stock and mutual fund purchases and sales for the period under examination. 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 2009 on stocks and mutual funds amounted to $2,849 and were traced to cash receipts records. There were no accrued dividends at December 31, 2009.

Book Value of Real Estate **$26,756**

The above amount represents the company's investment in real estate, net of depreciation, as of December 31, 2009. The company's real estate holdings consist of a home office building located at 265 South Main Street in Cedar Grove, Wisconsin.

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

The company has a written lease agreement with one tenant and rental income received during 2009 was traced to cash receipts records.

Premiums, Agents' Balances in Course of Collection **$28,113**

This asset represents the amounts due from agents or policyholders which are not in excess of 90 days past due at year-end. A review of individual agent's accounts verified the accuracy of this asset.

Premiums Deferred and Not Yet Due **$5,843**

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 **$6,631**

Interest due and accrued on the assets of the company at December 31, 2009, is entirely related to accrued interest on certificates of deposit in the amount of $6,631.

Reinsurance Recoverable on Paid Losses and LAE **$4,926**

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, 2009. A review of year-end accountings with the reinsurer verified the above asset.

Reinsurance Premium Recoverable **$14,485**

This asset represents the amount of reinsurance premium that the company had overpaid as of December 31, 2009. The examiners verified the balance directly with the reinsurer.

Reinsurance Commission Receivable **$8,959**

The above asset represents the amount of reinsurance commissions that the company expected to receive as of December 31, 2009, based on the profitability of the business ceded 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.

Policy Fees Receivable **$710**

This asset represents the policy fees due from agents or policyholders which are not in excess of 90 days past due at year-end. A review of individual agent's accounts verified the accuracy of this asset.

Furniture and Fixtures **$0**

This asset consists of $2,544 of furniture and office equipment owned by the company at December 31, 2009. In accordance with annual statement requirements, this amount has been reported as a nonadmitted asset, thus the balance shown above is $0. The furniture and equipment items currently owned have not been depreciated by the company because they are nonadmitted assets. Even though depreciating nonadmitted assets has no practical effect on the company’s balance sheet, these, like admitted assets, should reflect the standard useful life value remaining. It is recommended that the company properly depreciate furniture and equipment in compliance with Town Mutual Annual Statement Instructions.

Prepaid Expenses **$0**

This asset consists of prepaid insurance for the company. A review of the policies and paid invoices verified this asset. In accordance with annual statement instructions, this amount of $1,872 has been reported as a nonadmitted asset.

LIABILITIES AND SURPLUS

Net Unpaid Losses **$9,325**

This liability represents losses incurred on or prior to December 31, 2009, 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, 2009, with incurred dates in 2009 and prior years. To the actual paid loss figure was added an estimated amount for 2009 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	$162,200	$162,091	$ (109)
Less: Reinsurance recoverable on unpaid losses	152,875	154,018	(1,143)
Net Unpaid Losses	$ 9,325	$ 8,073	$(1,252)

The above difference of $1,252 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 **$150**

This liability represents the company's estimate of amounts necessary to settle losses which were incurred prior to December 31, 2009, but which remained unpaid as of year-end. The methodology used by the company in establishing this liability is estimation of adjusting cost.

The examiners' analysis of expenses incurred in the current year related to the settlement of prior year losses, as well as estimates of amounts necessary to settle any prior losses remaining unpaid at the examination date, determined this liability to be adequately stated.

Commissions Payable **$5,076**

This liability represents the commissions payable to agents as of December 31, 2009. The examiners reviewed the company's commission calculation and subsequent receipts from agents and found the liability to be reasonably stated.

Fire Department Dues Payable **$11**

This liability represents the fire department dues payable to the state of Wisconsin as of December 31, 2009. The examiners reviewed the company's fire department dues calculation and found this liability to be correctly calculated. The actual amount paid was verified to the cash disbursement records.

Unearned Premiums **$185,000**

This liability represents the reserve established for unearned premiums in compliance with s. Ins 13.08 (3), Wis. Adm. Code. The reserve established was 50% of the premiums in force, net of the premiums ceded to the reinsurer. The examiners noted that the company overstated Gross Premiums in Force and Unearned Premiums on the annual statement. Gross Premiums in Force from prior years was incorrectly stated causing the current year amount to be overstated. Examiners have adjusted this balance down $33,710 from $218,710 after reviewing company records. It appears the company is correctly stating premiums written, but cancellations appear to be incorrectly stated. The company has no computer system to calculate the premiums in force. The company can use the agency billing reports to calculate Premiums in Force. If Premiums in Force are correctly stated, the Unearned Premiums will be correctly stated. It is recommended that the company properly calculate and report Gross Premiums in Force and Unearned Premiums on the annual statement.

Reinsurance Payable **$13,873**

This liability consists of amounts due to the company's reinsurer at December 31, 2009, relating to transactions which occurred on or prior to that date. Examiners reviewed the company's invoice and payments to the reinsurer.

Amounts Withheld for the Account of Others **$1,523**

This liability represents employee payroll deductions in the possession of the company at December 31, 2009. Supporting records and subsequent cash disbursements verified this item.

Payroll Taxes Payable **$439**

This liability represents the company's portion of payroll taxes incurred prior to December 31, 2009, which had not yet been paid. Supporting records and subsequent cash disbursements verified this item.

Accounts Payable **$455**

This liability represents the company's portion of operating expenses incurred prior to December 31, 2009, which had not yet been paid. Supporting records and subsequent cash disbursements verified this item.

Accrued Property Taxes **$2,030**

This liability represents the company's property taxes incurred prior to December 31, 2009, which had not yet been paid. Supporting records and subsequent cash disbursements verified this item.

V. CONCLUSION

Holland Mutual Fire Insurance Company continues to serve three counties in east-central Wisconsin. Surplus has increased 65% since the prior examination. The company has reported gains in surplus each of the past five years, although it had underwriting losses and small net losses in two of those five years.

As of December 31, 2009, the company reported assets of $721,325, liabilities of $251,592, and surplus of $469,733. As a result of this examination, one adjustment was made to Unearned Premiums, decreasing it by $33,710 which increased surplus to $503,443. Net premiums written have increased 14% since 2004. Policies in force appear to have changed little during the same period.

The company's net underwriting expense ratio has remained around 50% over the past five years, varying from a high of 54% in 2008 to a low of 48% in 2009. The net loss and loss adjusting expense ratio has varied from 30% to 64%.

This examination resulted in six recommendations. Areas of improvement recommended by this examination included properly following the company's articles and bylaws, maintaining records, reporting on the annual statement, and documenting future plans.

VI. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 15 - Corporate Records—It is recommended that the company follow its articles and bylaws when appointing officers or change the articles and bylaws to reflect the company's business needs.

2. Page 15 - Corporate Records—It is recommended that the company consistently report biographical data relating to company officers and directors in accordance with the provisions of s. Ins 6.52, Wis. Adm. Code.

3. Page 17 - Accounts and Records—It is recommended that the company accurately calculate and report the number of policies written.

4. Page 18 - Business Continuity Plan—It is recommended that the company develop a business plan that documents succession planning, the underwriting review processes that are currently understood by the manager and agents, procedures for determining proportion ceded for First Surplus reinsurance, and a plan that shows what will need to be done when the company converts to a computer-based policy system.

5. Page 22 - Furniture and Fixtures—It is recommended that the company properly depreciate furniture and equipment in compliance with Town Mutual Annual Statement Instructions.

6. Page 24 - Unearned Premiums—It is recommended that the company properly calculate and report Gross Premiums in Force and Unearned Premiums on the annual statement.

VII. ACKNOWLEDGMENT

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

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

Respectfully submitted,

David Jensen
Examiner-in-Charge