

Report of the Examination of
Jamestown Mutual Insurance Company
Kiel, Wisconsin
As of December 31, 2018

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State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

Tony Evers, Governor
Mark V. Afable, Commissioner

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October 15, 2019

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Honorable Mark V. Afable
Commissioner of Insurance
State of Wisconsin
125 South Webster Street
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Commissioner:

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

JAMESTOWN MUTUAL INSURANCE COMPANY
Kielers, Wisconsin

and the following report thereon is respectfully submitted:

I. INTRODUCTION

The previous examination of Jamestown 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 examination.

In addition to auditing, the public accounting firm performs non-auditing services for the company, including preparing financial statements, footnotes, depreciation schedules, and various other services. An exemption by the Commissioner, pursuant to s. Ins 50.08 (5), Wis. Adm. Code, was granted on October 24, 2019, permitting the independent auditor to perform this non-audit work for the company.

The company was organized as a town mutual insurance company on March 14, 1885, under the provisions of the then existing Wisconsin Statutes. The original name of the company was Jamestown Mutual Fire Insurance Company. Subsequent amendments to the company's articles and bylaws changed the name to Jamestown Mutual Insurance Company.

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:

Crawford	Lafayette
Dane	Richland
Grant	Rock
Green	Sauk
Iowa	

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 flat annual policy fee equal to \$20.00 on every policy.

Business of the company is acquired through 29 agents, two of whom are directors of the company. Agents must write \$75,000 of written premium within three years of the contract inception date. Agents are presently compensated for their services as follows:

Type of Policy	Compensation
Farmowner	15%
Fire and Extended Coverage	15%
Homeowner	17%
Commercial	15%

Agents do not have authority to adjust any loss claims. The company uses an outside adjusting service and pays them to adjust most of the company's loss claims, and the company's Secretary/Office Manager adjusts some additional claims.

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
Martin Fleege	Retired	Hazel Green, WI	2020
Guy Richard	Business Owner	Kieler, WI	2020
Francis Leibfried	Farmer	Hazel Green, WI	2020
Gene Runde	Farmer	Cuba City, WI	2021
Jay Brandt	Accountant	Platteville, WI	2021
Bruce Fritz*	Insurance Agent	Lancaster, WI	2021
Keith Schleisman	General Manager	Cuba City, WI	2022
Dennis Marshall*	Insurance Agent	Cuba City, WI	2022
Greg Runde	Farmer	Cuba City, WI	2022

Directors who are also agents are identified with an asterisk.

Members of the board currently receive \$150.00 for each meeting attended and \$0.58 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
Jay Brandt	President	\$ 5,100
Guy Richard	Vice President	4,650
Keith Schleisman	Secretary	79,380
Gene Runde	Treasurer	90

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. Although there were two board designated committees at the time of the examination (Adjusting and Investment), it was discovered during the examination fieldwork that neither committee is active. Instead, the full board functions as the Adjusting Committee (by reviewing all claims), as well as the Investment Committee (by reviewing all investment transactions). Subsequent to the examination fieldwork, the full board voted to disband these two committees.

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	\$1,304,935	695	\$555,165	\$4,360,610	\$3,242,078
2017	1,285,884	703	(24,723)	4,314,178	2,825,602
2016	1,253,718	725	221,090	3,905,658	2,730,614
2015	1,238,143	750	(50,962)	3,750,209	2,458,904
2014	1,152,965	793	194,494	3,684,287	2,538,923

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

Year	Gross Premiums Written	Net Premiums Written	Policyholders' Surplus	Writings Net	Ratios Gross
2018	\$1,894,986	\$1,273,250	\$3,242,078	39.3%	58.4%
2017	1,945,937	1,335,096	2,825,602	47.2	68.9
2016	1,870,425	1,267,166	2,730,614	46.4	68.5
2015	1,825,256	1,236,826	2,458,904	50.3	74.2
2014	1,824,935	1,221,477	2,538,923	48.1	71.9

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	\$ 302,778	\$397,374	\$1,304,935	23.2%	31.2%	54.4%
2017	1,045,311	376,773	1,285,884	81.3	28.2	109.5
2016	610,789	369,739	1,253,718	48.7	29.2	77.9
2015	987,234	367,929	1,238,143	79.7	29.7	109.4
2014	565,807	367,127	1,152,965	49.1	30.1	79.2

Despite modest underwriting losses in 2017 and 2015, the overall trend in policyholders' surplus has been favorable over the examination period. The company reported significant improvements in its net underwriting results compared to the previous five-year period. For example, the average net loss ratio for 2014 – 2018 was 56%, as compared to 68% for 2009 – 2013. In addition, exceptional growth in investment income earned since 2016 has contributed to the favorable trend. Much of the growth in policyholders' surplus has occurred since 2015, during which time policyholders' surplus has increased 31.8% to \$3,242,078 (2018) from \$2,458,904 (2015).

During the same period, the company's policies in force have decreased from 793 (2014) to 695 (2018), representing a 12.4% decline. The company has taken measures to address this decline.

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:	Grinnell Mutual Reinsurance Company
Effective date:	January 1, 2019
Termination provisions:	The contract is continuous for successive annual contract-year terms until the contract is terminated. Termination may be initiated by either party at the end of any calendar year upon 90 days' advance written notice. The reinsurer may terminate upon 90 days' prior written notice under certain specified conditions.

The coverages provided under this contract are summarized as follows:

- | | |
|----------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Type of contract: | Per Risk Excess of Loss Reinsurance |
| Lines reinsured: | Property |
| Company's retention: | \$175,000 of the ultimate net loss incurred by the company per risk. |
| Coverage: | <p>First Layer: The reinsurer shall pay to the company 100% of the ultimate net loss incurred by the company in excess of the company's retention subject to a maximum reinsurance recovery of \$1,000,000 per risk including company retention.</p> <p>Second Layer: The reinsurer shall pay to the company 100% of the ultimate net loss incurred by the company in excess of the \$1,000,000 for each risk, subject to a maximum reinsurance recovery of \$4,000,000 for each risk. This coverage is automatic and does not require separate facultative coverage.</p> <p>Third Layer: The reinsurer shall pay to the company 100% of the ultimate net loss incurred by the company in excess of \$5,000,000 for each loss, each risk, subject to a maximum reinsurance recovery of \$15,000,000 for each risk. This requires the company to provide timely notification to the reinsurer of any risks exceeding \$10,000,000.</p> |
| Reinsurance premium: | Annual Premium: \$150,768
Monthly Premium: \$12,564 |
- | | |
|-------------------|----------------------------------------|
| Type of contract: | Catastrophe Excess of Loss Reinsurance |
| Lines reinsured: | Property |

- Company's retention: The first \$400,000 ultimate net losses incurred, per loss occurrence, net of all other reinsurance recoveries.
- Coverage: 100% of the company's ultimate net loss, per loss occurrence, in excess of the company's retention.
- Reinsurance premium: Annual Premium: \$143,592
Monthly Premium: \$11,966
3. Type of contract: Aggregate Excess of Loss Reinsurance
- Lines reinsured: Property
- Company's retention: \$1,050,000 ultimate net losses incurred, net of all other reinsurance recoveries.
- Coverage: 100% of the company's ultimate net loss, per loss occurrence, in excess of the company's retention. Reinsurance coverage is unlimited.
- Reinsurance premium: Annual Premium: \$139,404
Monthly Premium: \$11,617
4. Type of contract: Facultative Reinsurance
- Lines reinsured: Property
- Company's retention: Any risk that exceeds \$20,000,000 requires facultative coverage and separate application must be made to the reinsurer for such coverage
- Coverage: Determined on a per policy basis.
- Reinsurance premium: Determined by the reinsurer on a per policy basis
5. Type of contract: Personal Liability Quota Share Reinsurance
- Lines reinsured: Policies of the company classified as liability insurance
- Company's retention: None
- Coverage: 100% of the company's ultimate net loss in excess of the company's retention for each loss occurrence; however, the reinsurer's maximum liability shall not exceed \$1,000,000 each loss occurrence.
- Reinsurance premium: 100% of the premiums charged by the reinsurer
- Ceding commission: 20% of the premiums charged by the reinsurer

III. FINANCIAL DATA

The following financial statements reflect the financial condition of the company as reported to the Commissioner of Insurance in the December 31, 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."

**Jamestown Mutual Insurance Company
Statement of Assets and Liabilities
As of December 31, 2018**

Assets	Ledger	Nonledger	Not Admitted	Net Admitted
Cash in company's office	\$ 100	\$	\$	\$ 100
Cash deposited in checking	433,300			433,300
Cash deposited at interest	2,226,742			2,226,742
Bonds	50,410			50,410
Stocks and mutual fund investments	1,289,719			1,289,719
Real estate	13,345			13,345
Premiums, agents' balances and installments:				
In course of collection	16,835			16,835
Deferred and not yet due	320,326			320,326
Investment income accrued		9,244		9,244
Fire dues recoverable	589			589
Furniture and Fixtures	<u>10,633</u>		<u>10,633</u>	<u>10,633</u>
Totals	<u>\$4,361,999</u>	<u>\$9,244</u>	<u>\$10,633</u>	<u>\$4,360,610</u>

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

Liabilities and Surplus

Net unpaid losses	\$ 140,981
Loss adjustment expenses unpaid	2,554
Federal income taxes payable	32,803
Unearned premiums	873,839
Reinsurance payable	47,942
Other liabilities:	
Expense related:	
Accounts payable	4,656
Accrued property taxes	2,803
Nonexpense related:	
Premiums received in advance	<u>12,954</u>
Total Liabilities	1,118,532
Policyholders' Surplus	<u>3,242,078</u>
Total Liabilities and Surplus	<u>\$4,360,610</u>

Jamestown Mutual Insurance Company
Statement of Operations
For the Year 2018

Net premiums and assessments earned		\$1,304,935
Deduct:		
Net losses incurred	\$264,367	
Net loss adjustment expenses incurred	38,411	
Net other underwriting expenses incurred	<u>397,374</u>	
Total losses and expenses incurred		<u>700,152</u>
Net underwriting gain (loss)		604,783
Net investment income:		
Net investment income earned	112,778	
Net realized capital gains (losses)	<u>(14,840)</u>	
Total investment gain (loss)		97,938
Net income (loss) before federal income taxes		702,721
Federal income taxes incurred		<u>147,556</u>
Net Income (Loss)		<u>\$ 555,165</u>

**Jamestown 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:

	2018	2017	2016	2015	2014
Surplus, beginning of year	\$2,825,602	\$2,730,614	\$2,458,904	\$2,538,923	\$2,374,401
Net income (loss)	555,165	(24,723)	221,090	(50,962)	194,494
Net unrealized capital gain or (loss)	(143,110)	112,497	43,406	(36,564)	1,486
Change in non-admitted assets	<u>4,421</u>	<u>7,214</u>	<u>7,214</u>	<u>7,507</u>	<u>(31,458)</u>
Surplus, End of Year	<u>\$3,242,078</u>	<u>\$2,825,602</u>	<u>\$2,730,614</u>	<u>\$2,458,904</u>	<u>\$2,538,923</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. Corporate Records—It is recommended that the board of director minutes demonstrate active oversight of operations through the inclusion of more specific comments or reference to attachments, as it relates to investment decisions, financial results and claim approval status.

Action—Compliance.

2. Accounts and Records—It is recommended that the company adhere to its policy regarding check signatures in compliance with s. 13.05 (4) (b), Wis. Adm. Code.

Action—Compliance.

3. Accounts and Records—It is recommended that the annual statement be completed in accordance with the annual statement instructions.

Action—Compliance.

Current Examination Results

Annual Statement Reporting

A review of the annual statement submitted by the company found that several reporting requirements were not consistent with the Town Mutual Annual Statement Instructions.

Per the Town Mutual Annual Statement Instructions, internal directors are to be indicated with an "@" on the Jurat Page. Section 612.13 (1m), Wis. Stat. characterizes "employees" and "representatives" of the town mutual as inside (i.e., internal) directors; as such, the general manager, who is also a director, would be considered an inside director. Furthermore, a representative would include "insurance marketing intermediaries," as defined under Section 628.02 (1), Wis. Stat. The insurance agents would meet the definition of insurance marketing intermediaries, and therefore would also qualify as inside directors. The company should have indicated that the general manager and the two agents are internal board members on the Jurat Page as of December 31, 2018.

Additionally, officers or directors elected subsequent to the previous year's annual statement are to be indicated with a "#" on the Jurat Page. Greg Runde was appointed to the board on October 17, 2018. The company should have identified Mr. Runde as a new director on the Jurat Page as of December 31, 2018. It is recommended that the company indicate both internal directors and newly elected directors on the Jurat Page of the annual statement in accordance with the Town Mutual Annual Statement Instructions.

Audit Engagement Letter

A review of the engagement letter submitted to the company by its independent certified public accounting firm in anticipation of the external audit as of December 31, 2018, found that the engagement letter included a clause which is designed to limit the CPA firm's liability. The clause indicates that the client agrees to hold the CPA firm "harmless, and to release, indemnify, and defend" the CPA "from any liability or costs, including attorney's fees, resulting from management's knowing misrepresentation."

Section Ins 50.08 (1) (am), Wis. Adm. Code, provides that the Commissioner may rule that an accountant is not qualified to express an opinion on an audited financial statement if, among other things, the accountant has "either directly or indirectly entered into an agreement of

indemnification with respect to the audit of the insurer.” Section Ins 50.01 (4m), Wis. Adm. Code, defines indemnification as, “an agreement of indemnity or a release from liability where the intent or effect is to shift or limit in any manner the potential liability of the person or firm for failure to adhere to applicable auditing or professional standards, whether or not resulting in part from knowing or other misrepresentations made by the insurer or its representatives.”

The clause included in the engagement letter creates a contractual limit of liability with the intent to limit the liability of the CPA firm for failure to adhere to auditing standards. It is recommended that the company enter into future audit engagements with independent certified public accountants that are compliant with all requirements under s. Ins 50.08 (1), Wis. Adm. Code.

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 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	\$ 250,000
Worker's Compensation:	
Employee injury	Statutory
Employee liability:	
Each accident	500,000
Each employee	500,000
Policy limit	500,000
Directors & Officers	2,000,000
Professional Liability	2,000,000
Business Liability	4,000,000
Building	492,745
Business Personal Property	25,000

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 formal inspection procedures for both new and renewal business. A sampling of new applications and renewal business is inspected by board members who are independent of the risk under consideration and review.

Claims Adjusting

The company's full board functions as an adjusting committee, 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 complies with s. Ins 13.05, Wis. Adm. Code, which sets forth the minimum standards for the handling of cash and recording of cash transactions by town mutual insurance companies. The examiners noted the following:

1. A proper policy register is maintained.

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

An extensive review was made of income and disbursement items. Cash receipts were traced from source records and the proper recording and eventual deposit thereof ascertained. Negotiated checks issued during the period under examination were reviewed, test checked for proper endorsement, and traced to cash records. The verification of assets and determination of liabilities were made as of December 31, 2018.

The company is audited annually by an outside public accounting firm.

EDP Environment

Company personnel were interviewed with respect to the company's electronic data processing environment. Access to the computers is limited to people authorized to use the computers.

Company personnel back up the computers weekly 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. Such manuals would 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.

Custodial Agreement Compliance

The company is in partial compliance with the above provisions, since the company had investments that were held by a qualified custodian under a formal Custodial Agreement. However, this Custodial Agreement does not contain two provisions recommended by the National Association of Insurance Commissioners (NAIC) Financial Condition Examiners Handbook. The lacking provisions are as follows:

- The executed agreement should include language stating that; “if this agreement has been terminated or if 100 percent of the assets of the Account have been withdrawn, the custodian shall provide written notification, within three business days of termination or withdrawal, to the depositor’s domiciliary commissioner.”
- The executed agreement should include language stating that; “during regular business hours, and upon reasonable notice, an officer or employee of the depositor, an independent accountant selected by the depositor, or a representative of the depositor’s domiciliary commissioner shall be entitled to examine, on the premises of the custodian, the custodian’s records relating to securities, if the custodian is given written instructions to that effect from an authorized officer of the depositor.”

It is recommended that the company amend its Custodial Agreement to conform with standards set forth by the *NAIC Financial Condition Examiners Handbook*.

A second investment custodian held investments for the company without a custodial agreement as required by s. Ins 13.05 (4), Wis. Adm. Code, and (as a trust company) did not qualify as a custodian under s 610.23, Wis. Stat. It is recommended that the company comply with s. 610.23, Wis. Stat., and immediately transfer the securities held with the trust company into a proper custodial arrangement with a qualified custodian (e.g., a “bank” or “banking and trust” company). The custodial arrangement should be supported by a Custodial Agreement, executed by the custodian and the company, which contains the recommended provisions contained in the *NAIC Financial*

Condition Examiners Handbook. Alternatively, the company also has the option of holding the investments directly in its own name in accordance with s. Ins 13.05 (4), Wis. Adm. Code.

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	\$1,418,532
2. Liabilities plus 33% of gross premiums written	1,743,877
3. Liabilities plus 50% of net premiums written	1,755,157
4. Amount required (greater of 1, 2, or 3)	1,755,157
5. Amount of Type 1 investments as of 12/31/2018	<u>2,711,464</u>
6. Excess or (deficiency)	<u>956,307</u>

The company has sufficient Type 1 investments.

It is noted that the company is in compliance with its Type 2 investment limitation of 25% of admitted assets under s. 6.20 (6) (d), Wis. Adm. Code. The company requested that this limitation be raised to 40% of admitted assets, and the Commissioner granted this request in a letter dated October 28, 2019.

Advisory Agreement Compliance

The company utilizes the services of an investment advisor to assist in the management of its strategy for its investments. The company did not provide an investment advisor’s agreement, between the company and the advisor that contains 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

\$2,660,142

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

Cash in company's office	\$ 100
Cash deposited in banks—checking accounts	433,300
Cash deposited in banks at interest	<u>2,226,742</u>
Total	<u>\$2,660,142</u>

Cash in company's office at year's end represents the company's petty cash fund. The balance reconciled to the year-end general ledger.

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

Cash deposited in banks at interest represents the aggregate of 25 deposits in 17 depositories. Deposits were verified by the company's public accounting firm through 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 \$25,792 and was verified to company cash records. Rates of interest earned on cash deposits ranged from 0.80% to 3.23%. Accrued interest on cash deposits totaled \$8,771 at year's end.

The examination noted that the company had exceeded the applicable insured limits of the National Credit Union Association (NCUA) and the Federal Deposit Insurance Corporation (FDIC) on its certificates of deposits. In 2018, there were two certificates of deposit from a single credit union totaling \$252,773 and three certificates of deposit from a single bank totaling \$300,000. These investments exceeded the NCUA and FDIC limits, respectively, of \$250,000 at each of these financial institutions. Section Ins 6.20 (6) (b) 2, Wis. Adm. Code, limits investments in "demand deposit, interest bearing accounts and certificates of deposit" to "the total amount eligible for insurance under the financial institutions depositor insurance program." It is recommended that the company's cash deposits in any one credit union or banking institution do not exceed the maximum limitations of

depository insurance provided to depositors under available depository guaranty rules, in accordance with s. Ins. 6.20 (6) (b) 2, Wis. Adm. Code.

Book Value of Bonds **\$50,410**

The above asset consists of the aggregate book value of bonds owned by the company as of December 31, 2018. Bonds owned by the company are held by the custodian.

No bonds were purchased or sold during the year. The company's public accounting firm confirmed the par value of the sole bond owned by the company (a US Treasury Note) as of December 31, 2018, by the custodian. The company's investment in bonds was in conformance with Wisconsin Statutes and the rules of the Commissioner of Insurance as regards investments made by town mutual insurers.

Interest received during 2018 on bonds amounted to \$3,750 and was traced to cash receipts records. Accrued interest of \$473 at December 31, 2018, was verified and allowed as a nonledger asset.

Stocks and Mutual Fund Investments **\$1,289,719**

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 located in a secure room on the company premises.

Stock certificates were physically examined by the examiners. Stock and mutual fund purchases and sales for the period under examination were verified against brokers' invoices and advices. The company's investment in stocks and mutual funds was in conformance with Wisconsin Statutes and the rules of the Commissioner of Insurance as regards investments made by town mutual insurers.

Dividends received during 2018 on stocks and mutual funds amounted to \$16,603 and were traced to cash receipts records. Accrued dividends were zero at December 31, 2018.

During the course of business, insurers sometimes exceed certain limits that are required under the state insurance code. The company's investment in mutual funds with the American Funds family was \$463,319, which exceeded 10% of admitted assets by \$27,258. Section Ins 6.20 (6) (d) 5, Wis. Adm. Code, restricts town mutual insurers to 10% of assets in any single family of mutual funds

and 25% of assets in aggregate. It is recommended that the company comply with the requirement of s. Ins 6.20 (6) (d) 5, Wis. Adm. Code, regarding the investment limitations in any single family of mutual funds and in aggregate.

Book Value of Real Estate **\$13,345**

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 building and land for the home office.

The required documents supporting the validity of this asset were reviewed during the prior exam 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. The building is fully depreciated at this time.

Premiums, Agents' Balances in Course of Collection **\$16,835**

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

Premiums Deferred and Not Yet Due **\$320,326**

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. The aggregate total of the Deferred Premium Report at year's end was also traced to the company's general ledger.

Investment Income Accrued **\$9,244**

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

Total Cash Deposited at Interest	\$8,771
US Treasury Note	<u>473</u>
Total	<u>\$9,244</u>

Fire Dues Recoverable

\$589

This asset represents the amount overpaid to the State of Wisconsin for 2018 fire dues. The examiners relied on the testing performed by the company's public accounting firm to confirm this balance.

LIABILITIES AND SURPLUS

Net Unpaid Losses

\$140,981

This liability represents losses incurred on or prior to December 31, 2018, that remained unpaid as of that date. The examiners reviewed the reasonableness of this liability by totaling actual loss payments made subsequent to December 31, 2018, with incurred dates in 2018 and prior years. The examiners' development of unpaid losses is compared with the amount estimated by the company in the following schedule.

	Company Estimate	Examiners' Development	Difference
Incurred but unpaid losses	\$ 145,481	\$ 115,028	\$ 30,453
Less: Reinsurance recoverable on unpaid losses	<u>0</u>	<u>0</u>	<u>0</u>
Net Unpaid Losses	<u>\$ 145,981</u>	<u>\$ 115,028</u>	<u>\$ 30,453</u>

The above difference of \$30,453 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

\$2,554

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's end. The methodology used by the company in establishing this liability is reasonable.

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.

Federal Income Taxes Payable **\$32,803**

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

The examiners reviewed the company's 2018 tax return and verified amounts paid to cash disbursement records to verify the accuracy of this liability.

Unearned Premiums **\$873,839**

This liability represents the reserve established for unearned premiums in compliance with s. Ins 13.08 (3), Wis. Adm. Code. This reserve was established using a daily pro rata methodology. A review of a sample from the company's detailed list of unearned premiums verified the accuracy of this asset. The aggregate total of the Unearned Premium Report at year's end was also traced to the company general ledger.

Reinsurance Payable **\$47,942**

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

Accounts Payable **\$4,656**

This liability consists of amounts due to third parties at December 31, 2018, relating to transactions which occurred on or prior to that date. The examiners relied on the testing performed by the company's public accounting firm to confirm this balance.

Accrued Property Taxes **\$2,803**

This liability consists of amounts due to the town of Kielers, WI at December 31, 2018, relating to taxes owed which occurred on or prior to that date. The examiners relied on the testing performed by the company's public accounting firm to confirm this balance.

Premiums Received in Advance **\$12,954**

This liability represents the total premiums received prior to year's end for policies with effective dates after December 31, 2018. The examiners relied on the testing performed by the company's public accounting firm to confirm this balance.

V. CONCLUSION

Jamestown Mutual Insurance Company is a town mutual insurer currently operating in a nine-county area of southeastern Wisconsin. The company has been in business providing insurance to its policyholders for almost 134 years.

Despite modest underwriting losses in 2017 and 2015, the overall trend in policyholders' surplus has been favorable over the examination period. The company reported significant improvements in its net underwriting results compared to the previous five-year period. In addition, exceptional growth in investment income earned since 2016 has contributed to the favorable trend. Much of the growth in policyholders' surplus has occurred since 2015, during which time policyholders' surplus increased by 31.8%. During the same period, the company's policies in force declined by 12.4%. The company has taken measures to address this decline.

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

VI. SUMMARY OF COMMENTS AND RECOMMENDATIONS

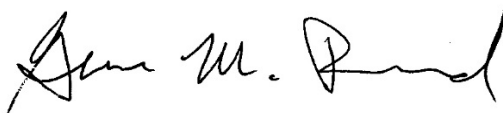
1. Page 15 - Annual Statement Reporting—It is recommended that the company indicate both internal directors and newly elected directors on the Jurat Page of the annual statement in accordance with the Town Mutual Annual Statement Instructions.
2. Page 16 - Audit Engagement Letter—It is recommended that the company enter into future audit engagements with independent certified public accountants that are compliant with all requirements under s. Ins 50.08 (1), Wis. Adm. Code.
3. Page 19 - Custodial Agreement Compliance—It is recommended that the company amend its Custodial Agreement to conform with standards set forth by the *NAIC Financial Condition Examiners Handbook*.
4. Page 19 - Custodial Agreement Compliance—It is recommended that the company comply with s. 610.23, Wis. Stat., and immediately transfer the securities held with the trust company into a proper custodial arrangement with a qualified custodian (e.g., a “bank” or “banking and trust” company). The custodial arrangement should be supported by a Custodial Agreement, executed by the custodian and the company, which contains the recommended provisions contained in the *NAIC Financial Condition Examiners Handbook*. Alternatively, the company also has the option of holding the investments directly in its own name in accordance with s. Ins 13.05 (4), Wis. Adm. Code.
5. Page 20 - Advisory Agreement Compliance—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.
6. Page 22 - Cash and Invested Cash—It is recommended that the company's cash deposits in any one credit union or banking institution do not exceed the maximum limitations of depository insurance provided to depositors under available depository guaranty rules, in accordance with s. Ins. 6.20 (6) (b) 2, Wis. Adm. Code.
7. Page 24 - Stock and Mutual Fund Investments—It is recommended that the company comply with the requirement of s. Ins 6.20 (6) (d) 5, Wis. Adm. Code, regarding the investment limitations in any single family of mutual funds and in aggregate.

VII. ACKNOWLEDGMENT

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

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

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Gene M. Renard". The signature is fluid and cursive, with a large initial "G" and a distinct "R" at the end.

Gene M. Renard, CFE
Examiner-in-Charge