

Report of the Examination of
Kenosha County Mutual Insurance Company
Bristol, Wisconsin
As of December 31, 2019

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February 25, 2021

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, 2019, of the affairs and financial condition of:

KENOSHA COUNTY MUTUAL INSURANCE COMPANY
Bristol, Wisconsin

and the following report thereon is respectfully submitted:

I. INTRODUCTION

The previous examination of Kenosha County 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, 2015, and ending December 31, 2019, 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 on February 26, 1860, under the provisions of the then-existing Wisconsin Statutes. The original name of the company was the Bristol 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:

Dane	Racine
Iowa	Richland
Jefferson	Walworth
Kenosha	Waukesha

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 does not charge any other fees to policyholders.

Business of the company is acquired through three agents, none of whom are directors of the company. Agents are presently compensated for their services as follows:

Type of Policy	Compensation
All types of policies	10%

Agents do not have authority to adjust losses. Losses are adjusted by the adjusting committee of the board of directors. Adjusters receive \$75 for the first three hours or less and \$25 for each additional hour.

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 10 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 policyholders listed below.

Name and Residence	Principal Occupation	Term Expires
Myron Daniels Salem, Wisconsin	Dairy Farmer	2023
Chris Leker Kenosha, Wisconsin	Crop Farmer	2023
Douglas Vaccarello Pleasant Prairie, Wisconsin	Retired	2023
Janet Elfering Kenosha, Wisconsin	Member at Large	2022
Fred Kevek Bristol, Wisconsin	Handyman Service	2022
Dennis Sheen Salem, Wisconsin	Retired Service Manager / Crop Farmer	2022
Daniel Weidman Kenosha, Wisconsin	Farmer	2022
Jason DeBell Salem, Wisconsin	Dairy Farmer	2021
Hector Velasquez Salem, Wisconsin	Factory Worker	2021
Patrick Willkomm Union Grove, Wisconsin	Farmer	2021

Members of the board currently receive \$100 for each in-county meeting and \$200 for each out-of-county meeting attended, and \$0.545 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
Myron Daniels	President
Daniel Weidman	Vice President
Dennis Sheen	Treasurer
Janet A. Elfering	Secretary

Committees of the Board

The company's bylaws allow for the formation of certain committees by the board of directors. The full board of directors functions as a committee of the whole for the adjusting committee required by s. 612.13 (4), Wis. Stat., and for review of investments.

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
2019	\$225,914	460	\$188,612	\$5,429,701	\$5,199,260
2018	212,910	478	135,460	5,126,077	4,925,659
2017	211,326	484	8,605	5,101,756	4,891,172
2016	213,570	493	77,096	4,976,485	4,704,318
2015	208,253	504	(81,989)	4,770,158	4,497,836

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 Net	Ratios Gross
2019	\$354,994	\$239,223	\$5,199,260	5%	7%
2018	355,941	211,659	4,925,659	4	7
2017	353,218	211,462	4,891,172	4	7
2016	350,951	210,105	4,704,318	4	7
2015	353,357	212,158	4,497,836	5	8

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
2019	\$ 58,560	\$157,341	\$225,914	26%	66%	92%
2018	45,190	136,160	212,910	21	64	86
2017	114,339	134,913	211,326	54	64	118
2016	174,190	127,019	213,570	82	60	142
2015	126,925	133,754	208,253	61	63	124

Over the course of the exam period, policyholders' surplus and admitted assets increased by 16% and 14%, respectively. The increases reflect net income year over year for the last four years. The net loss reported in year 2015 was caused by underwriting and net realized capital losses of \$52,426 and \$107,038 respectively, which was partially offset by net investment income earned of \$77,135.

The net loss ratios for 2015 to 2017 were the result of a large number of weather related claims, as well as multiple fire claims in 2016. As a result, underwriting losses were reported for each of

the aforementioned years. However, total investment gains offset the underwriting losses in 2016 and 2017.

Policies in force decreased by 9% (or 44 policies) over the exam period. However, gross premiums written remained relatively stable over the exam period, due to premium adjustments to cover increased property values (including equipment).

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
Effective date:	January 1, 2021
Termination provisions:	Either party may terminate the 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:

- | | |
|----------------------|---|
| Type of contract: | AX1 – Casualty Excess of Loss |
| Lines reinsured: | All casualty business |
| Company's retention: | \$2,500 in respect to each and every loss |
| Coverage: | 100% of loss in excess of \$2,500 of each and every loss, including loss adjustment expense, occurring on the business covered, subject to the following maximum policy limits: <ul style="list-style-type: none">\$1,000,000 per occurrence, single limit or combined for bodily injury and property damage liability1,000,000 split limits, in any combination of bodily injury and property damage liability\$25,000 for medical payments per person; \$25,000 per accident for personal lines |
| Reinsurance premium: | 65% of net premium written |
- | | |
|-------------------------|---|
| Type of contract: | Class C-1 – Excess of Loss First Layer |
| Lines reinsured: | All property business |
| Company's retention: | \$50,000 per loss |
| Coverage: | 100% of any loss, including loss adjustment expense, in excess of \$50,000 in respect to each and every risk resulting from one loss occurrence, with a \$100,000 limit |
| Reinsurance premium: | 12.15% of net premium written |
| Annual deposit premium: | \$36,450 |

3. Type of contract: Class C-2 – Excess of Loss Second Layer
- Lines reinsured: All property business
- Company's retention: \$150,000 per loss
- Coverage: 100% of any loss, including loss adjustment expense, in excess of \$150,000 in respect to each and every risk resulting from one loss occurrence, with a \$850,000 limit
- Reinsurance premium: 6% of net premium written
- Annual deposit premium of \$18,000
4. Type of contract: Class C-3 – Excess of Loss Third Layer
- Lines reinsured: All property business
- Company's retention: \$1,000,000 per loss
- Coverage: 100% of any loss, including loss adjustment expense, in excess of \$1,000,000 in respect to each and every risk resulting from one loss occurrence, with a \$3,000,000 limit
- Reinsurance premium: 3% of net premium written
- Annual deposit premium of \$9,000
5. Type of contract: Class D1 – Aggregate Excess of Loss
- Lines reinsured: All business written
- Coverage: 100% of the amount, if any, by which the aggregate of the net losses, including loss adjustment expenses, exceed the attachment point which is equal to the attachment point percentage, multiplied by net premium
- Attachment point percentage: 100%
- Estimated attachment point: \$259,300
- Reinsurance premium: 6.5% of net premium written
- Annual deposit premium: \$16,855

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, 2019, 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."

**Kenosha County Mutual Insurance Company
Statement of Assets and Liabilities
As of December 31, 2019**

Assets	Ledger	Nonledger	Not Admitted	Net Admitted
Cash deposited in checking	\$ 52,774	\$	\$	\$ 52,774
Cash deposited at interest	909,987			909,987
Bonds	2,146,048			2,146,048
Stocks and mutual fund investments	2,275,828			2,275,828
Premiums, agents' balances and installments:				
In course of collection	5,257		1	5,256
Deferred and not yet due	8,415			8,415
Investment income accrued		27,341		27,341
Reinsurance premium recoverable	4,052			4,052
Prepaid Expense	<u>4,101</u>	<u> </u>	<u>4,101</u>	<u> </u>
Totals	<u>\$5,406,462</u>	<u>\$27,341</u>	<u>\$4,102</u>	<u>\$5,429,701</u>

**Kenosha County Mutual Insurance Company
Statement of Assets and Liabilities (cont.)
As of December 31, 2019**

Liabilities and Surplus

Net unpaid losses	\$ 30,515
Loss adjustment expenses unpaid	400
Commissions payable	4,822
Fire department dues payable	13
Unearned premiums	176,059
Amounts withheld for the account of others	584
Payroll taxes payable (employer's portion)	615
Other liabilities:	
Expense related:	
Accounts payable	753
Nonexpense related:	
Premiums received in advance	<u>16,680</u>
Total Liabilities	230,441
Policyholders' Surplus	<u>5,199,260</u>
Total Liabilities and Surplus	<u>\$5,429,701</u>

Kenosha County Mutual Insurance Company
Statement of Operations
For the Year 2019

Net premiums and assessments earned		\$225,914
Deduct:		
Net losses incurred	\$ 43,003	
Net loss adjustment expenses incurred	15,557	
Net other underwriting expenses incurred	<u>157,341</u>	
Total losses and expenses incurred		<u>215,901</u>
Net underwriting gain (loss)		10,013
Net investment income:		
Net investment income earned	69,819	
Net realized capital gains (losses)	<u>108,457</u>	
Total investment gain (loss)		178,276
Other income (expense):		
Other Miscellaneous	<u>323</u>	
Total other income (expense)		<u>323</u>
Net income (loss) before federal income taxes		186,612
Federal income taxes incurred		<u>0</u>
Net Income (Loss)		<u>\$186,612</u>

**Kenosha County Mutual Insurance Company
Reconciliation and Analysis of Surplus as Regards Policyholders
For the Five-Year Period Ending December 31, 2019**

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:

	2019	2018	2017	2016	2015
Surplus, beginning of year	\$4,925,659	\$4,891,172	\$4,704,318	\$4,497,836	\$4,478,047
Net income (loss)	188,612	135,460	8,605	77,096	(81,989)
Net unrealized capital gain or (loss)	79,617	(100,330)	177,900	130,466	109,878
Change in non-admitted assets	<u>5,372</u>	<u>(643)</u>	<u>349</u>	<u>(1,080)</u>	<u>(8,100)</u>
Surplus, End of Year	<u>\$5,199,260</u>	<u>\$4,925,659</u>	<u>\$4,891,172</u>	<u>\$4,704,318</u>	<u>\$4,497,836</u>

Reconciliation of Policyholders' Surplus

The examination resulted in no adjustments to policyholders' surplus. The amount reported by the company as of December 31, 2019, 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. Claims Adjusting—It is recommended that the company's board of directors appoint an adjusting committee as required by s. 612.13 (4), Wis. Stat.

Action—Compliance

2. Stocks and Mutual Fund Investments—It is recommended that the company divest itself of any investment that does not comply with s. Ins 6.20 (6) (b), Wis. Adm. Code.

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.

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 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 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
Workers Compensation:	
Employee injury	Statutory
Professional Liability Insurance:	
Each claim	1,000,000
Policy limit	1,000,000
Commercial Property Insurance	3,500

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. All new business is inspected, and renewal business is reinspected every three years. The inspection is completed by the company's agents. However, the company does not retain evidence of the inspections (rather the results are communicated verbally). As a result, the examination was unable to verify the completed inspections. It is recommended that the company create and retain evidence of inspection reports.

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 not maintained.
4. A proper general journal is maintained.
5. A proper general ledger is maintained.

During the review of the company's cash disbursements, it was noted that the company reserved and signed checks (first signature) for transactions requiring two signatures in advance (often

holding on to checks for several weeks until the actual issuance), which led to chronological and numerical discrepancies in the cash disbursements journal. It is recommended that the company record all checks in chronological and numerical order in the cash disbursements journal, and that all checks be mailed or delivered immediately after being signed in accordance with s. Ins 13.05 (4) (b), Wis. Adm. Code; it is further recommended that, in the event that a check requiring two signatures cannot be signed by both signatories immediately after issuance, the unsigned check shall be maintained in a secure and locked location until it is signed by two authorized signatories, and that it be mailed or delivered immediately after being signed.

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, 2019.

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

Claims Review

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.

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	\$ 530,441
2. Liabilities plus 33% of gross premiums written	347,589
3. Liabilities plus 50% of net premiums written	350,053
4. Amount required (greater of 1, 2, or 3)	530,441
5. Amount of Type 1 investments as of 12/31/2019	<u>3,061,999</u>
6. Excess or (deficiency)	<u>\$2,531,548</u>

The company has sufficient Type 1 investments.

V. CONCLUSION

Kenosha County Mutual Insurance Company is a town mutual insurer with an authorized territory of eight counties. The company has been in business over 160 years, providing property and liability insurance to its policyholders.

Over the course of examination period (2015 – 2019), the company's admitted assets increased by 14%, surplus increased by 16%, while policies in force decreased by 9%. The company reported net income in four of the five years under examination.

The company has complied with the two recommendations from the previous examination. The current examination resulted in two exam recommendations pertaining to underwriting, and account and records. The examination did not result in any changes to surplus.

VI. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 17 - Underwriting—It is recommended that the company create and retain evidence of inspection reports.
2. Page 18 - Accounts and Records—It is recommended that the company record all checks in chronological and numerical order in the cash disbursements journal, and that all checks be mailed or delivered immediately after being signed in accordance with s. Ins 13.05 (4) (b), Wis. Adm. Code; it is further recommended that, in the event that a check requiring two signatures cannot be signed by both signatories immediately after issuance, the unsigned check shall be maintained in a secure and locked location until it is signed by two authorized signatories, and that it be mailed or delivered immediately after being signed.

VII. ACKNOWLEDGMENT

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

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Junji N. Nartatez". The signature is stylized with a long horizontal stroke at the beginning and a large, looped "N" at the end.

Junji Nartatez
Examiner-in-Charge