

Report of the Examination of
Seneca, Sigel Mutual Insurance Company
Vesper, Wisconsin
As of December 31, 2019

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March 10, 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:

SENECA, SIGEL MUTUAL INSURANCE COMPANY
Vesper, Wisconsin

and the following report thereon is respectfully submitted:

I. INTRODUCTION

The previous examination of Seneca, Sigel 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 is annually audited by an independent public accounting firm as prescribed by s. Ins 50.05, Wis. Adm. Code. An integral part of this compliance examination was the review of the independent accountant's work papers. Based on the results of the review of these work papers, alternative or additional examination steps deemed necessary for the completion of this examination were performed. The examination work papers contain documentation with respect to the alternative or additional examination steps performed during the course of the examination.

In addition to auditing, the public accounting firm performs non-auditing services for the company, including bookkeeping, preparation of tax returns, and town mutual annual statement. On January 20, 2011, an exemption was granted by the Commissioner, pursuant to s. Ins 50.08 (5), Wis. Adm. Code, permitting the independent auditor to perform this non-audit work for the company.

The company was organized as a town mutual insurance company on April 12, 1891, under the provisions of the then-existing Wisconsin Statutes. The original name of the company was the Seneca, Sigel and Rudolph 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. The company added Marquette, Columbia, and Sauk counties to their writing territory.

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:

| | |
|----------|-----------|
| Adams | Marquette |
| Chippewa | Oneida |
| Clark | Portage |
| Columbia | Sauk |
| Juneau | Taylor |
| Langdale | Waupaca |
| Lincoln | Wood |
| Marathon | |

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 corresponding to billing terms with premiums payable on the advance premium basis. The company also charges a policy fee equal to \$6 for annual premium of \$50 to \$1,499; \$10 for annual premium of \$1,500 to 2,499; \$15 for annual premium of \$2,500 to \$4,999; and \$20 for annual premium of \$5,000 and over.

Business of the company is acquired through 129 agents, none of whom are directors of the company. Agents are presently compensated for their services at a rate of 15% on all types of policies. Agents writing more than \$25,000 in annual premium are eligible for a contingent commission.

Agents do not have authority to adjust losses. The company hires an outside adjusting firm which submits the result of inspection and calculation of claims to the company for final approval by the claims handler and general manager.

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 and Residence | Principal Occupation | Term Expires |
|---|--------------------------------|---------------------|
| Tom Bauer Auburndale, Wisconsin | Farmer | 2021 |
| Ron Kremer Pittsville, Wisconsin | Retired | 2021 |
| Melissa Mattheis Wisconsin Rapids, Wisconsin | Officer Manager | 2021 |
| Paul Mueske Wisconsin Rapids, Wisconsin | Farmer | 2023 |
| Dale Pagels Rudolph, Wisconsin | Retired | 2022 |
| Harvey Petersen Pittsville, Wisconsin | Farmer | 2023 |
| Steve Redmond Arpin, Wisconsin | Custodian/Contractor | 2023 |
| Loren Scheunemann Vesper, Wisconsin | Farmer/Crop Insurance Adjuster | 2022 |
| Carol Tomfohrde Vesper, Wisconsin | Retired | 2022 |

Members of the board currently receive \$100 for each meeting attended and \$200 for full day meetings, seminars, and conventions. Officers of the board (president and secretary/treasurer) are paid

\$2,000 each annually. Officers and directors are reimbursed for mileage at \$0.58 per mile, lodging, meals, registration fees, and other incidental 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 |
|-----------------|---------------------|
| Harvey Petersen | President |
| Ron Kremer | Vice President |
| Carol Tomfohrde | Secretary/Treasurer |

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
Harvey Petersen, Chair
Ron Kremer
Carol Tomfohrde
Dale Pagels
Loren Scheunemann
Steve Redmond
Paul Mueske
Tom Bauer
Melissa Mattheis

Executive Committee
Harvey Petersen, Chair
Ron Kremer
Carol Tomfohrde

Personnel Committee
Harvey Petersen, Chair
Ron Kremer
Paul Mueske
Tom Bauer

Rates and Research Committee
Harvey Petersen, Chair
Carol Tomfohrde
Loren Scheunemann
Steve Redmond

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 | Admitted Assets | Policyholders' Surplus |
|------|---------------------|-------------------|------------|-----------------|------------------------|
| 2019 | \$784,667 | 1,504 | \$40,197 | \$3,224,953 | \$2,664,816 |
| 2018 | 789,783 | 1,570 | 150,915 | 3,097,317 | 2,531,592 |
| 2017 | 694,367 | 1,613 | 66,000 | 3,007,877 | 2,435,495 |
| 2016 | 713,080 | 1,648 | (14,045) | 2,734,221 | 2,211,121 |
| 2015 | 702,033 | 1,683 | 49,548 | 2,596,507 | 2,048,549 |
| 2014 | 735,930 | 1,870 | 278 | 2,578,395 | 1,969,652 |

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 |
|------|------------------------|----------------------|------------------------|---------------------|-----------------------|
| 2019 | \$1,196,651 | \$777,280 | \$2,664,816 | 29% | 45% |
| 2018 | 1,192,787 | 779,449 | 2,531,592 | 31 | 47 |
| 2017 | 1,153,525 | 704,171 | 2,435,495 | 29 | 47 |
| 2016 | 1,134,291 | 708,451 | 2,211,121 | 32 | 51 |
| 2015 | 1,160,550 | 696,557 | 2,048,549 | 34 | 57 |
| 2014 | 1,193,752 | 692,593 | 1,969,652 | 35 | 61 |

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 | \$435,603 | \$402,857 | \$784,667 | 56% | 52% | 108% |
| 2018 | 300,037 | 432,894 | 789,783 | 38 | 56 | 94 |
| 2017 | 291,545 | 428,226 | 694,367 | 42 | 61 | 103 |
| 2016 | 385,070 | 403,833 | 713,080 | 54 | 57 | 111 |
| 2015 | 274,718 | 443,922 | 702,033 | 39 | 64 | 103 |
| 2014 | 447,716 | 446,417 | 735,930 | 61 | 64 | 125 |

Assets and surplus increased 25% and 35%, respectively, over the five-year period due to investment income and policy fees that were offset by unfavorable underwriting results. Underwriting losses are driven by the losses and associated loss adjusting expenses (LAE), net of reinsurance, that the company pays pursuant to the terms of its insurance contracts with policyholders, and the expenses it incurs to support its business operations, such as salaries, office expenses, audit fees, etc. Losses/LAE

and underwriting expenses are measured in terms of their relation to earned premium and net written premium, respectively.

Loss ratio has been stable over the five-year period, with the highest ratio of 56% in 2019 and the lowest ratio of 38% in 2018. Expense ratio has been consistently high between 52% to 64%, resulting in a combined ratio of more than 100% in four out of the five years under examination. As described in the "Current Examination Results" section of this report, the company did not report deferred premium on the policies payable in installment as part of its written premium. This omission resulted in written premium being understated by \$154,758, and, correspondingly, in a higher expense ratio. Had the deferred premium been reported as part of written premium, the expense ratio would have been below the town mutual industry average expense ratio of 47%. It should be noted that this omission did not distort the loss/LAE ratio because net earned premium was not misstated.

Policies in force have decreased from 1,870 policies in 2014 down to 1,504 policies in 2019, a decrease of 20%. The decrease in policyholders is common to most town mutual companies.

II. REINSURANCE

The examiners' review of the company's reinsurance portfolio revealed there are currently four ceding treaties placed on behalf of the company by Guy Carpenter, a reinsurance intermediary broker. The treaties contained proper insolvency clauses 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. Following are the subscribing reinsurers and their corresponding participating shares:

| | |
|---|----------------|
| American Agricultural Insurance Co. | 18.50% |
| Aspen Insurance UK Limited | 2.50 |
| Berkley Insurance Co. | 14.00 |
| Employers Mutual Casualty Co. | 15.25 |
| Farmers Mutual Hail Insurance Co. of Iowa | 8.75 |
| Hannover Ruck SE* | 7.00 |
| Renaissance Reinsurance U.S. Inc. | 4.00 |
| Swiss Reinsurance America Corp. | 20.00 |
| The Toa Reinsurance Co. of America | <u>10.00</u> |
| Total | <u>100.00%</u> |

Below is the outline of all reinsurance agreements in force as of December 31, 2019:

- | | | |
|----|--------------------|---|
| 1. | Type of contract: | Property Facultative Pro Rata Reinsurance |
| | Reinsurer: | Various Subscribing Reinsurers |
| | Lines Reinsured: | Property Business |
| | Maximum Cession: | \$1,000,000 |
| | Minimum Retention: | \$1,000,000 |
| | Ceding Commission: | 25% |
| | Terms: | January 1, 2018 to January 1, 2020 |
- | | | |
|----|-------------------|---|
| 2. | Type of contract: | Multiple Line Excess of Loss Reinsurance |
| | Reinsurer: | Various Subscribing Reinsurers |
| | Lines Reinsured: | Property and Casualty Business |
| | Retention: | Property: \$60,000 each loss, each risk Casualty: \$10,000 each loss occurrence |
| | Coverage: | Property: \$940,000 in excess of \$60,000, each loss, each risk; subject to occurrence limit of \$2,820,000 Casualty: \$1,490,000 in excess of \$10,000, each loss occurrence |
| | Premium: | 20.25% of Gross Net Written Premium Income (GNWPI) |
| | Terms: | January 1, 2018 to January 1, 2020 |

3. Type of contract: Property Catastrophe Excess of Loss Reinsurance
- Reinsurer: Various Subscribing Reinsurers
- Lines Reinsured: All Property Business
- Retention: \$120,000, each loss occurrence
- Coverage: \$1,880,000 in excess of \$120,000, each loss occurrence; subject to annual occurrence limit of \$3,760,000
- Premium: 5.1% of GNWPI
- Terms: January 1, 2018 to January 1, 2020
4. Type of contract: Aggregate Excess of Loss Reinsurance
- Reinsurer: Various Subscribing Reinsurers
- Lines Reinsured: Property and Casualty Business
- Retention: Property & Casualty: 72% of GNWPI
Casualty: \$200,000, ultimate net loss
- Coverage: Property & Casualty: 100% excess of company retention
Casualty: 100% excess of company retention. The Casualty coverage shall inure to the benefit of the of the Property & Casualty coverage
- Terms: January 1, 2018 to January 1, 2020
5. Type of Contract: Boiler and Machinery Semi-Automatic Reinsurance Agreement
- Reinsurer: The Travelers Indemnity Company
- Lines Reinsured: Boiler and Machinery Equipment Breakdown
- Maximum Limit: The exposures ceded to the reinsurer shall not exceed the following maximum limit for any one breakdown or one disruption:
1. \$25,000,000 for any direct and indirect loss and expense caused by a breakdown to covered equipment; and
 2. \$25,000,000 for any direct and indirect loss and expense caused by disruption to buried utility lines.
- Terms: Effective April 1, 2018. The agreement is continuous unless canceled by either of the party after providing a written notice of cancelation with a minimum of 90 days prior to the effective date of the cancellation.

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."

**Seneca, Sigel Mutual Insurance Company
Statement of Assets and Liabilities
As of December 31, 2019**

| Assets | Ledger | Nonledger | Not Admitted | Net Admitted |
|--|---------------------------|------------------------|-----------------------|---------------------------|
| Cash in company's office | \$ 560 | \$ | \$ | \$ 560 |
| Cash deposited in checking | 101,812 | | | 101,812 |
| Cash deposited at interest | 365,038 | | | 365,038 |
| Bonds | 1,116,134 | | | 1,116,134 |
| Stocks and mutual fund investments | 1,594,436 | | | 1,594,436 |
| Real estate | 22,292 | | | 22,292 |
| Premiums, agents' balances and installments: | | | | |
| In course of collection | 5,008 | | 191 | 4,817 |
| Investment income accrued | | 14,286 | | 14,286 |
| Electronic data processing equipment | 5,538 | | | 5,538 |
| Fire dues recoverable | 40 | | | 40 |
| Furniture and fixtures | <u>2,135</u> | <u> </u> | <u>2,135</u> | <u> </u> |
| Totals | <u>\$3,212,993</u> | <u>\$14,286</u> | <u>\$2,326</u> | <u>\$3,224,953</u> |

**Seneca, Sigel Mutual Insurance Company
Statement of Assets and Liabilities (cont.)
Liabilities and Surplus**

| | |
|--|---------------------------|
| Net unpaid losses | \$ 77,540 |
| Loss adjustment expenses unpaid | 7,000 |
| Commissions payable | 8,738 |
| Federal income taxes payable | 9,630 |
| Unearned premiums | 424,153 |
| Reinsurance payable | 4,048 |
| Amounts withheld for the account of others | 726 |
| Other liabilities: | |
| Expense related: | |
| Accounts payable | 1,000 |
| Reimbursements Payable | 165 |
| Recovered Reinsurance Payable | 11,000 |
| Nonexpense related: | |
| Premiums received in advance | <u>16,137</u> |
| Total Liabilities | 560,137 |
| Policyholders' Surplus | <u>2,664,816</u> |
| Total Liabilities and Surplus | <u>\$3,224,953</u> |

Seneca, Sigel Mutual Insurance Company
Statement of Operations
For the Year 2019

| | | |
|---|----------------|------------------|
| Net premiums and assessments earned | | \$784,667 |
| Deduct: | | |
| Net losses incurred | \$302,897 | |
| Net loss adjustment expenses incurred | 132,706 | |
| Net other underwriting expenses incurred | <u>402,857</u> | |
| Total losses and expenses incurred | | <u>838,460</u> |
| Net underwriting gain (loss) | | (53,793) |
| Net investment income: | | |
| Net investment income earned | 54,472 | |
| Net realized capital gains (losses) | <u>742</u> | |
| Total investment gain (loss) | | 55,214 |
| Other income (expense): | | |
| Policy and installment fees | | <u>45,276</u> |
| Net income (loss) before federal income taxes | | 46,697 |
| Federal income taxes incurred | | <u>6,500</u> |
| Net Income (Loss) | | <u>\$ 40,197</u> |

Seneca, Sigel 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 | \$2,531,592 | \$2,435,495 | \$2,211,121 | \$2,048,549 | \$1,969,652 |
| Net income (loss) | 40,197 | 150,915 | 66,000 | (14,045) | 49,548 |
| Net unrealized capital gain or (loss) | 92,674 | (55,214) | 157,879 | 176,155 | 27,243 |
| Change in non-admitted assets | <u>353</u> | <u>396</u> | <u>495</u> | <u>462</u> | <u>2,106</u> |
| Surplus, End of Year | <u>\$2,664,816</u> | <u>\$2,531,592</u> | <u>\$2,435,495</u> | <u>\$2,211,121</u> | <u>\$2,048,549</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.

Examination Adjustments

| | Debit | Credit |
|-------------------|-----------------------------|------------------|
| Deferred Premiums | \$154,758 | |
| Unearned Premiums | <u> </u> | <u>\$154,758</u> |
| Total Adjustments | <u>\$154,758</u> | <u>\$154,758</u> |

See comments in the Current Examination Results section.

IV. SUMMARY OF EXAMINATION RESULTS

Compliance with Prior Examination Report Recommendations

Comments and recommendations contained in the last examination report and the action taken on them by the company are as follows:

1. Book Value of Bonds—It is recommended that the company report two Tribune Company bonds on Schedule C, Section 1, in accordance with the Town Mutual Annual Statement instructions on all future financial statements.

Action—Compliance.

Current Examination Results

Corporate Records

The minutes of the annual meetings of policyholders and meetings of the board of directors and committees thereof, were reviewed for the period under examination and for the subsequent period.

Biographical data relating to company officers and directors have been reported in accordance with the provisions of s. Ins 6.52, Wis. Adm. Code.

The company has executed formal written agreements with its agents. The contracts include language indicating the 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 |
| Employee liability: | |
| Each accident | 500,000 |
| Each employee | 500,000 |
| Policy limit | 500,000 |
| General Liability: | |
| General Aggregate Limit | 1,000,000 |
| Products | 2,000,000 |
| Damage to Premises-any one premise | 100,000 |
| Each Occurrence Limit | 1,000,000 |
| Other Than Products | 2,000,000 |
| Medical Expense Limit-per person | 5,000 |
| Umbrella: | |
| General Aggregate Limit | 1,000,000 |
| Personal and Advertising Limit | 1,000,000 |
| Each Occurrence Limit | 1,000,000 |
| Retained Limit Each Occurrence | 10,000 |

Underwriting

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

The company has a formal inspection procedure for both new and renewal business. Seneca, Sigel Mutual has an inspector staff assigned for the inspection of new applications and renewal of policies. The company uses an outside inspector only when needed.

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 not 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 general journal is maintained.
3. A proper general ledger is maintained.

The general journal is maintained to record all the cash receipts and cash disbursements transactions and all transactions affecting ledger items.

The examination team reviewed a reconciliation of the cash balance reported by the company to the corresponding amount on its bank statement as of December 31, 2019. It was noted that there were unresolved discrepancies between these documents which resulted in the company making an adjusting entry of \$7,383 as of December 31, 2019. Based on the review of the company's documents and records, the examination team concluded that several reasons contributed to this matter. These reasons are listed below:

1. Check deposits and electronic deposits (ACH receipts) are manually entered into the general ledger by type of insurance coverage rather than by the total amount received per policy. This makes monthly reconciliations prone to mathematical errors.
2. ACH receipts from policyholders and online refunds from vendors are not reconciled against the amounts per bank statement. This is because the ACH receipts are recorded in the general ledger by daily totals, while bank statements list all receipts separately by individual payor.
3. There were several instances when checks were incorrectly dated which resulted in the payment amounts not being properly allocated to the right periods.
4. There were several old outstanding checks which should have been reported as escheats but remained as reconciling items in the bank reconciliation. Further discussion with the company noted that these checks were voided and should have been removed from the bank reconciliation.
5. The general journal does not show the details of the cash receipts on a per policy basis, such as the date the premium is paid, payor, amount received, and policy number. In order to reconcile the bank statements to the general ledger, details from multiple sources such as the ACH transaction reports and the manual deposit tickets are required.

It is recommended that the company perform detailed reconciliation of monthly cash receipts and cash disbursements records against the bank records and properly investigate any discrepancies in accordance with s. Ins 13.05, Wis. Adm. Code.

Negotiated checks issued during the period under examination were reviewed for proper endorsement and were traced to cash records without exception. The assets were verified, and liabilities were determined 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. 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.

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.

Review of investments record noted that the company recorded investments on settlement date and not on trade date. According to SSAP 26R, a bond acquisition or disposal shall be recorded on the trade date (not the settlement date) except for the acquisition of private placement bonds which shall be recorded on the funding date. It is recommended that bond acquisition or disposal shall be recorded on the trade date and not on the settlement date in accordance with SSAP 26R.

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 | \$ 860,137 |
| 2. Liabilities plus 33% of gross premiums written | 955,032 |
| 3. Liabilities plus 50% of net premiums written | 948,777 |
| 4. Amount required (greater of 1, 2, or 3) | 955,032 |
| 5. Amount of Type 1 investments as of December 31, 2019 | <u>1,923,836</u> |
| 6. Excess or (deficiency) | <u>\$ 968,804</u> |

The company has sufficient Type 1 investments.

Unearned Premiums and Deferred Premiums

Review of the unearned and deferred premium calculation showed that the company did not report deferred premium and the corresponding amount of unearned premium as of December 31, 2019. This was caused by the practice of treating policy terms based on each policy payment mode. Although this practice was discontinued a number of years ago, the company continued to exclude any deferred installment from both deferred premium (assets) and unearned premium (liability) accounts.

Correspondingly, direct written premium was understated by the same amount. However, there was no effect on earned premium or surplus. The examiners' calculation of deferred premium showed that both asset and liability balances were understated by \$154,758. An examination adjustment was made as a result of the review. See entry under the Reconciliation of Policyholders' Surplus section. It is recommended that the company report deferred and unearned premium in accordance with the Annual Statement Instructions – Town Mutual.

V. CONCLUSION

The company reported total assets of \$3,224,953 and surplus of \$2,664,816 as of December 31, 2019. Operations resulted in a net income of \$40,197. The company has been financially strong with assets and surplus growth of 25% and 35%, respectively over the last five years. Loss ratio has been stable and below 65% in each of the five years under examination. Expense ratio, however, has been consistently high and above 35% resulting in combined ratios of more than 100% in four out of the five years under examination. Underwriting losses, however, were offset by investment earnings and policy fees resulting in a net income reported in four of the five years under examination.

The current examination resulted in three new examination recommendations, an examination adjustment, and no repeat recommendations.

VI. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 17 - Accounts and Records—It is recommended that the company perform detailed reconciliation of monthly cash receipts and cash disbursements records against the bank records and properly investigate any discrepancies in accordance with s. Ins 13.05, Wis. Adm. Code.
2. Page 18 - Invested Assets—It is recommended that bond acquisition or disposal shall be recorded on the trade date and not on the settlement date in accordance with SSAP 26R.
3. Page 19 - Unearned Premiums and Deferred Premiums—It is recommended that the company report deferred and unearned premium in accordance with the Annual Statement Instructions – Town Mutual.

VII. ACKNOWLEDGMENT

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

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

Respectfully submitted,



Angelita Romaker
Examiner-in-Charge

VIII. SUBSEQUENT EVENT

On March 11, 2020, the World Health Organization declared the coronavirus disease (COVID-19) a pandemic. As of the date of this report, there is still significant uncertainty on the effect that the pandemic will have on the insurance industry, economy, and society at large. The examination's review of the impact to Seneca, Sigel Mutual Insurance Company through March 2021 noted that there has not been a significant impact to the company overall; however, due to various uncertainties with the pandemic, it is unclear whether this will continue to have a minimal impact to the company or if it will escalate. The Office of the Commissioner of Insurance will continue to monitor how the pandemic might impact the company.