

Report of the Examination of
Trade Lake Mutual Insurance Company
Frederic, Wisconsin
As of December 31, 2020

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July 27, 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, 2020, of the affairs and financial condition of:

TRADE LAKE MUTUAL INSURANCE COMPANY
Frederic, Wisconsin

and the following report thereon is respectfully submitted:

I. INTRODUCTION

The previous examination of Trade Lake Mutual Insurance Company (the company) was made in 2013 as of December 31, 2012. The current examination covered the five-year period beginning January 1, 2016, and ending December 31, 2020, and included a review of such subsequent transactions deemed essential to complete this examination.

The “Summary of Examination Results” contains elaboration on certain 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 accounting for income taxes and compilation of the annual statement. On December 13, 2010, an exemption was granted by the Commissioner, pursuant to s. Ins 50.08 (5), Wis. Adm. Code, permitting the independent auditor to perform this non-audit work for the company.

The company was organized as a town mutual insurance company on March 11, 1874, under the provisions of the then-existing Wisconsin Statutes. The original name of the company was the Trade Lake 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 was one amendment to the articles of incorporation and no amendments to the bylaws. The articles of incorporation were amended on May 24, 2016, to add Dunn and St. Croix counties to the territory the company may do business within.

The company is currently licensed to write property, including windstorm and hail, and non-property insurance. The company is currently licensed to write business in the following counties:

Barron	Polk
Burnett	Sawyer
Douglas	St. Croix
Dunn	Washburn

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 six months or one year with premiums payable on the advance premium basis. The company charges billing fees of \$1 for monthly billing, \$3 for quarterly billing, or \$6 for semi-annual billing.

Business of the company is acquired through 25 agents, two of whom are directors of the company. Agents are presently compensated for their services as follows:

Type of Policy	Compensation
All policies (new)	15%
All policies (renewal)	14%

Losses are adjusted by a commercial adjusting firm.

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 policyholders listed below. Directors who are also agents are identified with an asterisk.

Name and Residence	Principal Occupation	Term Expires
Brandon Ayd Frederic, Wisconsin	Electrician	2023
Wayne Gustafson Frederic, Wisconsin	Retired Banker	2023
Richard Harder* Spooner, Wisconsin	Captive Agent	2024
Susan Hughes* Frederic, Wisconsin	Captive Agent	2022
Mark Miller Grantsburg, Wisconsin	Construction	2023
Deanne Mullner Frederic, Wisconsin	Retired RN/EMT	2024
Doug Panek Frederic, Wisconsin	Retired Publishing Manager	2022
Josh Peck Danbury, Wisconsin	State Employee	2024
Darlene Treague Danbury, Wisconsin	Retired Coordinator	2022

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
Wayne Gustafson	President
Richard Harder	Vice President
Deanne Mullner	Secretary/Treasurer
Jacqueline Coen	Manager

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:

Executive Committee

Wayne Gustafson, Chair
Richard Harder
Deanne Mullner

Personnel Committee

Wayne Gustafson, Chair
Deanne Mullner
Doug Panek

Business Planning Committee

Wayne Gustafson, Chair
Brandon Ayd
Josh Peck
Darlene Treague
Jacqueline Coen*

Marketing Committee

Deanne Mullner, Chair
Susan Hughes
Josh Peck
Michelle McEvers*
Jacqueline Coen*

Nominating Committee

Mark Miller, Chair
Doug Panek
Darlene Treague
Jacqueline Coen*

Agent Advisory Committee

Richard Harder, Chair
Susan Hughes
Peggy Moore*

Agency Directors Committee

Doug Panek, President
Josh Peck, Secretary
Wayne Gustafson
Mark Miller
Brandon Ayd
Deanne Mullner
Darlene Treague

Rate Committee

Susan Hughes, Chair
Richard Harder
Mark Miller
Brandon Ayd
Jacqueline Coen*

*Jacqueline Coen, Michelle McEvers, and Peggy Moore are not members of the board but are used in agent advising and business planning for their familiarity with agents or the needs of the business. The Agent Advisory Committee is designed to offer advice to the board related to agents. The Business Planning Committee gathers information for the board related to market area and medium-term plans. The company has the company manager on this committee, but they do not vote.

Growth of Company

The growth of the company over the most recent five years as compiled from its filed annual statements was as follows:

Year	Net Premiums Earned	Policies In Force	Net Income	Admitted Assets	Policyholders' Surplus
2020	\$611,013	1,117	\$ 121,564	\$2,035,462	\$1,379,507
2019	562,189	1,114	(176,956)	1,998,875	1,323,917
2018	584,482	1,122	150,946	2,099,100	1,489,231
2017	556,335	1,129	27,769	2,013,443	1,315,901
2016	528,934	1,148	89,124	1,916,363	1,193,653
2015	582,135	1,173	(77,203)	1,458,647	926,525

The ratios of gross and net premiums written to surplus as regards policyholders over the most recent five years were as follows:

Year	Gross Premiums Written	Net Premiums Written	Policyholders' Surplus	Writings Ratios Net	Ratios Gross
2020	\$1,036,541	\$650,805	\$1,379,507	47%	75%
2019	995,645	567,182	1,323,917	43	75
2018	998,956	565,997	1,489,231	38	67
2017	978,338	556,781	1,315,901	42	74
2016	1,125,490	668,468	1,193,653	56	94
2015	993,690	583,990	926,525	63	107

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
2020	\$213,528	\$346,268	\$611,013	35%	53%	88%
2019	473,385	325,474	562,189	84	57	142
2018	163,328	315,824	584,482	28	56	84
2017	301,527	310,073	556,335	54	56	110
2016	144,600	342,461	528,934	27	51	79
2015	330,096	356,447	582,135	57	61	118

The company reported underwriting income in three of the five most recent years and net income in four of the five most recent years. The net loss in 2019 was due to significant property damage caused by severe weather events that heavily impacted most local property insurers. The company's underwriting expense ratio fluctuated between 51% and 57% during the examination period as a result of

the changes in net written premium. The expense ratio of 53% reported in 2020 was higher than the average expense ratio of 47% reported by the town mutual industry, largely due to a relatively low volume of net written premium. Gross premiums written declined 8% and net premiums written declined 3% over the most recent five-year period, reflecting a slight decrease in membership. Overall, surplus has increased by 49%, or \$452,982 over the past five years. Approximately half of this increase was attributed to net income and half to unrealized investment gains.

II. REINSURANCE

The examiners' review of the company's reinsurance portfolio revealed there are currently two ceding treaties. All treaties reviewed contained proper insolvency clauses. The company is in compliance 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.

First treaty:

Type of contract:	Equipment Breakdown Coverage
Reinsurer:	Travelers Indemnity Company
Effective date:	January 1, 2020, continuous
Lines reinsured:	Homeowners and Farm Dwelling Policies
Company's retention:	None
Coverage:	100% of the company's liability in connection with business covered. The exposures ceded to the Reinsurer shall not exceed \$100,000 for any "One Equipment Breakdown." Dwellings and house values for a single location must be less than or equal to \$1,500,000.
Termination provisions:	Either party may terminate the agreement by providing a written notice of cancellation with a minimum of 90 days' notice prior to the effective date of the cancellation. Upon cancellation, the Company shall advise the Reinsurer as to which of the following methods of cancellation shall apply: 1. Termination on a runoff basis; or 2. Termination on a cutoff basis

Second treaty:

Reinsurer:	Wisconsin Reinsurance Corporation (WRC)
Effective date:	January 1, 2021, continuous
Termination provisions:	Either party may terminate this contract as of any subsequent January 1 by giving to the other party at least 90 days' advance notice in writing. In the event of termination, the reinsurer shall not be liable for losses occurring on or after the effective date of termination.

The coverages provided under this treaty are summarized as follows:

1. Type of contract:	Casualty Excess of Loss Reinsurance
Lines reinsured:	All casualty or liability business written by the company
Company's retention:	\$10,000 in respect to each and every loss occurrence

- Coverage: 100% of each and every loss occurring on the business covered by this contract, including loss adjustment expenses, in excess of retention, subject to maximum policy limits of \$1,000,000 per occurrence, \$1,000,000 split limits, \$25,000 for medical payments, per person, \$25,000 per accident for Personal Lines
2. Type of contract: First Surplus Reinsurance
- Lines reinsured: All property business written by the company
- Company's retention: \$400,000 on each loss occurrence
- Coverage: Up to \$2,000,000 on a pro rata basis when the company's first surplus liability in respect to a risk exceeds retention. When a cession has been made, the reinsurer shall be liable for the pro rata portion of each and every loss, including loss adjustment expense, corresponding to the amount of the risk ceded by the company as it bears to the company's gross liability on such risk.
3. Type of contract: First Per Risk Excess of Loss Reinsurance
- Lines reinsured: All property business written by the company
- Company's retention: \$60,000
- Coverage: 100% of each and every loss, including loss adjustment expense, in excess of retention, in respect to each and every risk resulting from one loss occurrence, subject to a limit of liability to the reinsurer of \$80,000
4. Type of contract: Second Per Risk Excess of Loss Reinsurance
- Lines reinsured: All property business written by the company
- Company's retention: \$140,000
- Coverage: 100% of each and every loss, including loss adjustment expense, in excess of retention, in respect to each and every risk resulting from one loss occurrence, subject to a limit of liability to the reinsurer of \$260,000.
5. Type of contract: First Aggregate Excess of Loss Reinsurance
- Lines reinsured: All business written by the company
- Company's retention: 60% of net premium (estimated at \$540,148)
- Coverage: 100% of the amount by which the aggregate of the company's net losses, including loss adjustment expenses, which occur during an annual period exceed the retention with a limit of 65% of net premium
6. Type of contract: Second Aggregate Excess of Loss Reinsurance
- Lines reinsured: All business written by the company

Company's retention: 125% of net premium

Coverage: 100% of the amount by which the aggregate of the company's net losses, including loss adjustment expenses, exceed the retention

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, 2020, 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."

Trade Lake Mutual Insurance Company Statement of Assets and Liabilities As of December 31, 2020

Assets	Total Assets	Non-Admitted	Total Admitted
Cash in company's office	\$ 100	\$	\$ 100
Cash deposited in checking	131,902		131,902
Cash deposited at interest	30,000		30,000
Bonds	284,698		284,698
Stocks and mutual fund and ETF investments	1,372,828		1,372,828
Real estate	18,403		18,403
Premiums, agents' balances and installments:			
In course of collection	766		766
Deferred and not yet due	154,078		154,078
Investment income accrued	3,386		3,386
Reinsurance recoverable on paid losses and LAE	26,557		26,557
Other expense related assets:			
Reinsurance commission receivable	11,126		11,126
Other non-expense related assets:			
Federal income tax recoverable	1,618		1,618
Other non-admitted assets:			
Software	<u>5,400</u>	<u>5,400</u>	<u> </u>
Totals	<u>\$2,040,862</u>	<u>\$5,400</u>	<u>\$2,035,462</u>

Trade Lake Mutual Insurance Company
Statement of Assets and Liabilities (cont.)
As of December 31, 2020

Liabilities and Surplus

Net unpaid losses	\$ 21,468
Loss adjustment expenses unpaid	1,900
Commissions payable	36,378
Fire department dues payable	327
Unearned premiums	507,236
Reinsurance payable	59,087
Amounts withheld for the account of others	2,051
Payroll taxes payable (employer's portion)	642
Other liabilities:	
Expense related:	
Accounts payable	1,281
Accrued property taxes	1,671
Accrued Wages	1,531
Nonexpense related:	
Premiums received in advance	<u>22,383</u>
Total Liabilities	655,955
Policyholders' Surplus	<u>1,379,507</u>
Total Liabilities and Surplus	<u>\$2,035,462</u>

**Trade Lake Mutual Insurance Company
Statement of Operations
For the Year 2020**

Net premiums and assessments earned		\$611,013
Deduct:		
Net losses incurred	\$167,683	
Net loss adjustment expenses incurred	45,845	
Net other underwriting expenses incurred	<u>346,268</u>	
Total losses and expenses incurred		<u>559,796</u>
Net underwriting gain (loss)		51,217
Net investment income:		
Net investment income earned	7,261	
Net realized capital gains (losses)	<u>(3,084)</u>	
Total investment gain (loss)		4,177
Other income (expense):		
Policy and installment fees	36,688	
Gain on Extinguishment of Debt	19,600	
All Other	<u>9,504</u>	
Total other income (expense)		<u>67,792</u>
Net income (loss) before federal income taxes		123,186
Federal income taxes incurred		<u>1,622</u>
Net Income (Loss)		<u>\$121,564</u>

**Trade Lake Mutual Insurance Company
Reconciliation and Analysis of Surplus as Regards Policyholders
For the Five-Year Period Ending December 31, 2020**

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:

	2020	2019	2018	2017	2016
Surplus, beginning of year	\$1,323,917	\$1,489,231	\$1,315,901	\$1,193,653	\$ 926,525
Net income (loss)	121,564	(176,956)	150,946	27,769	89,124
Net unrealized capital gain or (loss)	(67,791)	18,798	22,435	94,473	169,948
Change in non-admitted assets	<u>1,817</u>	<u>(7,156)</u>	<u>(51)</u>	<u>6</u>	<u>8,056</u>
Surplus, End of Year	<u>\$1,379,507</u>	<u>\$1,323,917</u>	<u>\$1,489,231</u>	<u>\$1,315,901</u>	<u>\$1,193,653</u>

Reconciliation of Policyholders' Surplus

The examination resulted in no adjustments to policyholders' surplus. The amount reported by the company as of December 31, 2020, is accepted.

IV. SUMMARY OF EXAMINATION RESULTS

Compliance with Prior Examination Report Recommendations

The prior examination resulted in no recommendations and no adjustments to surplus.

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.

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 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	\$ 150,000
Worker's Compensation:	
Employee injury	Statutory
Employee liability:	
Each accident	100,000
Each employee	100,000
Policy limit	500,000
Business and Property:	
Liability	1,000,000
Property	110,000
Personal property	60,000
Agent and broker professional liability	2,000,000
Directors and officer's liability	2,000,000
Cyber insurance	1,000,000

Underwriting

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

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

Claims Adjusting

The company does not have a separate adjusting committee to adjust or supervise the adjustment of losses. The full board of directors acts as an adjusting committee and supervises the adjustment of losses, which satisfies the requirements of s. 612.13 (4), Wis. Stat.

Accounts and Records

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

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

An extensive review was made of income and disbursement items. Cash receipts were traced from source records and the proper recording and eventual deposit thereof were 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, 2020.

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 (s. Ins 6.20 (6), Wis. Adm. Code) 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. Further, the investment rules establish a minimum Type 1 asset requirement for holding Type 2 securities. If Type 1 securities held by a town mutual is less the sum of 1, 2, or 3 below, the town mutual must divest of its Type 2 assets (with some exceptions).

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

1. Liabilities plus \$300,000	\$ 955,955
2. Liabilities plus 33% of gross premiums written	1,001,469
3. Liabilities plus 75% of net premiums written	1,144,059
4. Amount required (greatest of 1, 2, or 3)	1,144,059
5. Amount of Type 1 investments as of 12/31/2020	<u>808,257</u>
6. Excess or (deficiency)	<u>(\$ 335,802)</u>

The company does not have sufficient Type 1 investments and, therefore, is not allowed to hold Type 2 assets (with some exceptions). As of December 31, 2020, the company had five investments, with a statement value of \$118,678, which are subject to the divestment. The examiners reviewed the company's plan to bring its investments into compliance and considered it satisfactory.

V. CONCLUSION

Trade Lake Mutual Insurance Company is a town mutual insurer covering an eight-county area. The company has been in business for more than 147 years providing property and liability insurance to its policyholders.

The company reported net underwriting gain in three and net income in four of the last five years. An underwriting and net loss in 2019 was due to significant catastrophic damage caused by severe weather events. Overall, surplus has increased by 49%, or \$453 thousand over the past five years.

The current examination resulted in no recommendations and no adjustments to surplus.

VI. SUMMARY OF COMMENTS AND RECOMMENDATIONS

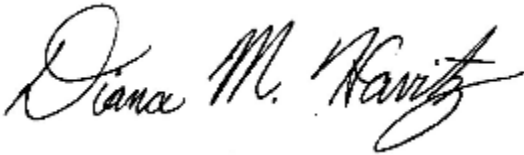
The examination resulted in no recommendations and no adjustments to surplus.

VII. ACKNOWLEDGMENT

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

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

Respectfully submitted,

A handwritten signature in black ink that reads "Diana M. Havitz". The signature is written in a cursive style with a large initial "D" and a long, sweeping underline.

Diana Havitz
Examiner-in-Charge