



**COMMONWEALTH OF MASSACHUSETTS**  
**OFFICE OF CONSUMER AFFAIRS AND BUSINESS REGULATION**  
**DIVISION OF INSURANCE**

***REPORT OF EXAMINATION OF THE***  
**Barnstable County Mutual Insurance Company**  
**Yarmouth Port, Massachusetts**  
**As of December 31, 2015**

**NAIC GROUP CODE 0919**  
**NAIC COMPANY CODE 13463**  
**EMPLOYER ID NUMBER 04-1063730**

## BARNSTABLE COUNTY MUTUAL INSURANCE COMPANY

### TABLE OF CONTENTS

	<u>Page</u>
Salutation	1
Scope of Examination	2
Summary of Significant Findings	2
Company History	3
General	3
Management and Control	3
Board of Directors Minutes	3
Articles of Organization and Bylaws	3
Board of Directors	4
Committees of the Board of Directors	4
Officers	4
Organization Chart	5
Transactions and Agreements with Subsidiaries	5
Territory and Plan of Operation	6
Treatment of Policyholders -- Market Conduct	6
Reinsurance	6
Assumed	6
Ceded	6
Financial Statements	7
Statement of Assets, Liabilities, Surplus and Other Funds	8
Statement of Assets, Liabilities, Surplus and Other Funds (continued)	9
Statement of Income	10
Reconciliation of Capital and Surplus	11
Analysis of Changes in Financial Statements Resulting from The Examination	12
Comments on Financial Statement Items	12
Subsequent Events	13
Summary of Recommendations	13
Signature Page	14



**COMMONWEALTH OF MASSACHUSETTS**  
**Office of Consumer Affairs and Business Regulation**  
**DIVISION OF INSURANCE**

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**GARY D. ANDERSON**  
ACTING COMMISSIONER OF INSURANCE

March 15, 2017

The Honorable Gary D. Anderson  
Acting Commissioner of Insurance  
Commonwealth of Massachusetts  
Division of Insurance  
1000 Washington Street, Suite 810  
Boston, MA 02118-6200

Honorable Commissioner:

Pursuant to your instructions and in accordance with Massachusetts General Laws, Chapter 175, Section 4, an examination has been made of the financial condition and affairs of

**BARNSTABLE COUNTY MUTUAL INSURANCE COMPANY**

at its home office located at 915 Route 6A, Yarmouth Port, Massachusetts 02675. The following report thereon is respectfully submitted.

Barnstable County Mutual Insurance Company

**SCOPE OF EXAMINATION**

Barnstable County Mutual Insurance Company ("Company") was last examined as of December 31, 2010, by the Massachusetts Division of Insurance ("Division"). The current examination also was conducted by the Division and it covers the period from December 31, 2010, through December 31, 2015, including any material transactions and/or events occurring subsequent to the examination date and noted in the course of this examination.

The examination was conducted in accordance with standards and procedures established by the National Association of Insurance Commissioners ("NAIC") Financial Condition (E) Committee and prescribed by the current NAIC *Financial Condition Examiners Handbook*, the examination standards of the Division and with Massachusetts General Law. The Handbook requires that we plan and perform the examination to evaluate the financial condition and identify prospective risks of the Company by obtaining information about the Company, including corporate governance, identifying and assessing inherent risks within the Company, and evaluating system controls and procedures used to mitigate those risks.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. This may include assessing significant estimates made by management and evaluating management's compliance with Statutory Accounting Principles. The examination does not attest to the fair presentation of the financial statements included herein. If, during the course of the examination an adjustment is identified, the impact of such adjustment will be documented separately following the Company's financial statements.

This examination report includes significant findings of fact, as mentioned in the Massachusetts General Laws, Chapter 175, Section 4 and general information about the insurer and its financial condition. There may be other items identified during the examination that, due to their nature (e.g., subjective conclusions, proprietary information, etc.), are not included within the examination report but separately communicated to other regulators and/or the Company.

The Company is audited annually by PricewaterhouseCoopers LLP ("PwC"), an independent certified public accounting firm. The firm expressed unqualified opinions on the Company's financial statements for the calendar years 2011 through 2015. A review and use of PwC's work papers was made to the extent deemed appropriate and effective.

Representatives from the firm of Lewis & Ellis, Inc. ("Lewis & Ellis") were retained by the Division to assist in the examination by performing certain examination procedures at the direction of and under the overall management of the Division's examination staff. The assistance included the evaluation and adequacy of the Company's loss and loss adjustment expense reserves as of December 31, 2015.

**SUMMARY OF SIGNIFICANT FINDINGS**

There were no significant findings identified during the examination.

## Barnstable County Mutual Insurance Company

### COMPANY HISTORY

#### General

The Company was incorporated March 2, 1833 under the laws of the Commonwealth of Massachusetts and commenced business August 1, 1833 under the title Barnstable County Mutual Fire Insurance Company. On May 18, 1994, the word "Fire" was deleted from the title. The Company is authorized to issue policies for homeowners and commercial multi-peril, fire, allied lines, inland marine and other liability.

In January, 1956, the charter and bylaws of the Company were amended, authorizing the issuance of both assessable and non-assessable policies. Since that date, the Company has issued only non-assessable policies.

In December, 1981, the Company created a stock subsidiary, Barnstable County Insurance Company ("BCIC") to offer agents and policyholders deviated rates at policy inception. The management of both companies is the same. The Company shares facilities, employees, and related costs with its subsidiary. In 1994, the Company paid in an additional \$1,200,000 surplus to its affiliate, BCIC.

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In 2001, BCIC received permission from the Massachusetts Division of Insurance to write commercial lines. As a condition of approval, the Division of Insurance required BCIC to increase its capital by \$475,000. Accordingly, BCIC increased the par value of common shares from \$50 per share to \$100 per share, which resulted in an additional \$475,000 capital contribution from the Company to BCIC.

In December, 2011, the Company formed a wholly-owned subsidiary, Yankee Risk Solutions, LLC, ("YRS") which became licensed as a surplus lines broker in Massachusetts. The Company has contributed \$430,000 in capital contributions to date and has treated this subsidiary as a non-admitted asset.

### MANAGEMENT AND CONTROL

#### Board of Directors Minutes

The minutes of meetings of the Board of Directors and its committees for the period under examination were read and they indicated that all meetings were held in accordance with the Company's bylaws and the Laws of the Commonwealth of Massachusetts. Activities of the committees were ratified at meetings of the Board of Directors. The previous Report of Examination was reviewed by the Board of Directors on August 16, 2012 as required by the Massachusetts statute. Affidavits were signed and submitted to the Division.

#### Articles of Organization and Bylaws

The articles of organization and bylaws of the Company were reviewed. There have been no amendments to the articles of organization or the bylaws during the period under examination.

## Barnstable County Mutual Insurance Company

### Board of Directors

According to the bylaws, the powers of the Company shall be exercised, its business and affairs shall be conducted and its property shall be controlled by the Board of Directors, except as otherwise provided by the laws of the Commonwealth of Massachusetts, the articles of organization or the bylaws. The number of Directors shall be no less than nine (9). At December 31, 2015, the Company's Board of Directors was composed of thirteen (13) persons, which is in compliance with the Company's bylaws and the General Laws of Massachusetts. The members of the Board of Directors are as follows:

<u>Name of Director</u>	<u>Title</u>
Shawn J. Almeida	Director
John L. DeMello	President & Chief Executive Officer
Jane M. Remy	Director
Hamilton N. Shepley	Director
Rosemary M. McAndrew	Director
Charles H. Ritch	Director
Paul R. Silva	Director
Gary M. DellaPosta	Director
Christine M. Murphy	Vice President & Chief Financial Officer
William W. Saltonstall	Director
Robert A. Talerman	Director
Gerard P. Williams	Director

### Committees of the Board of Directors

The Audit Committee of the Board of Directors is composed of four directors who have no role in the management of the Company. As of December 31, 2015, membership on the committee consisted of Directors DellaPosta (Chair), Ritch, Williams, and Talerman. In addition to the Audit Committee, the following committees were in place at December 31, 2015: Executive Committee, Investment Committee, Employee Benefits Committee and a Nominating Committee.

### Officers

According to the Company's bylaws, the Board of Directors shall elect the officers of the Company. The officers of the Company shall be the President, the Treasurer, and the Secretary and such other officers as the Board of Directors may determine. The officers shall hold office until the first meeting of the Board of Directors following the annual meeting of the stockholders and until the successor of such officer shall have been duly elected and qualified.

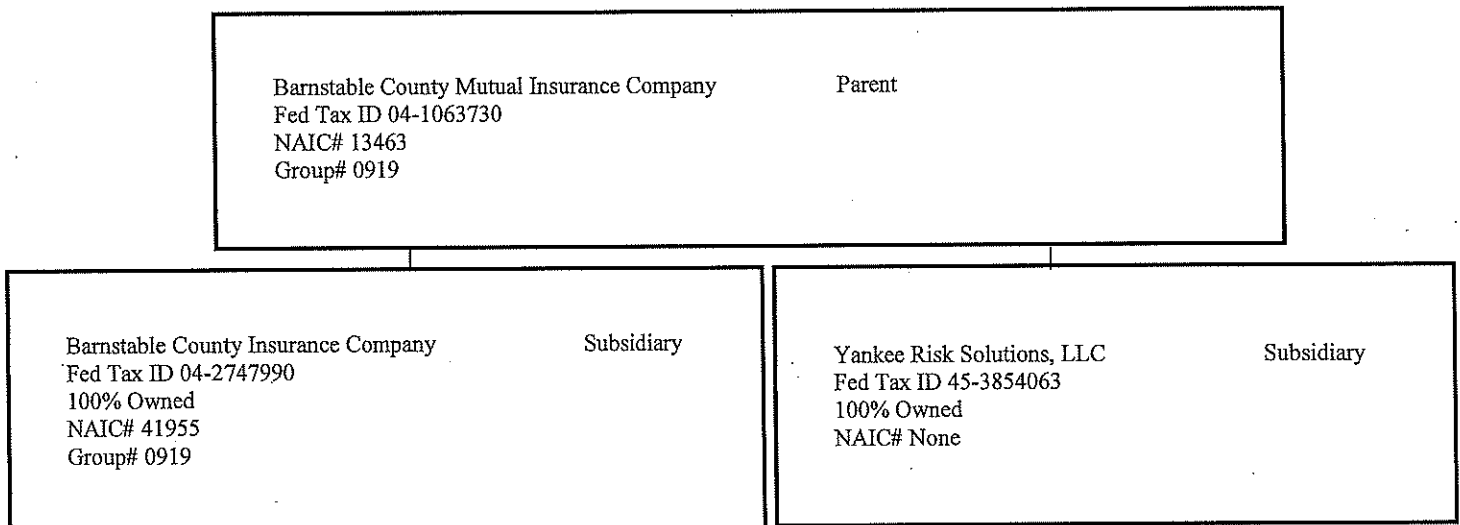
## Barnstable County Mutual Insurance Company

The officers of the Company at December 31, 2015, are as follows:

<u>Name of Officer</u>	<u>Title</u>
John L. DeMello	President & Chief Executive Officer
Christine M. Murphy	Vice President & Chief Financial Officer
Deborah A. Sutton	Assistant Vice President & Secretary
Howard W. Perkins	Assistant Vice President & Treasurer

### Organization Chart

At December 31, 2015, the Company is a member of the following organizational structure:



### Transactions and Agreements with Subsidiaries

#### *Expense Sharing Agreements*

The Company provides certain accounting, management and other services to its subsidiaries, Barnstable County Insurance Company and Yankee Risk Solutions, LLC ("YRS"). In consideration of such services, BCIC and YRS agreed to pay the costs and expenses of such services.

#### *Tax Sharing Agreement*

The Company participates in a written tax allocation agreement with BCIC and YRS. The allocation method is based upon the respective tax liability of each member combined as if a separate return were filed in accordance with the Internal Revenue Code. Inter-company balances are settled quarterly.

### **TERRITORY AND PLAN OF OPERATION**

The Company currently is licensed to write business in Massachusetts only, with the concentration of its business on Cape Cod. All business is written through independent agents. A competitive commission program is provided to agents with a contingent commission provision based upon profitability. The Certificate of Authority is current and in force.

The Company's principal lines of business are homeowners, fire, allied lines and other liability, provided primarily to personal risks through its appointed agents.

#### **Treatment of Policyholders – Market Conduct**

During the financial examination of the Company, the Division's Market Conduct Department initiated a comprehensive market conduct examination of the Company for the period January 1, 2015 through December 31, 2015. The market conduct examination was called pursuant to authority in Massachusetts General Law Chapter 175, Section 4. The market conduct examination was conducted at the direction of, and the overall management and control of, the market conduct examination staff of the Division. Representatives from the firm of Rudmose and Noller Advisors, LLC were engaged to complete certain agreed upon procedures which were developed using the guidance and standards of the NAIC Market Regulation Handbook, the market conduct examination standards of the Division, and the Commonwealth of Massachusetts insurance laws, regulations and bulletins. The business areas that were reviewed under the market conduct examination are Company Operations/Management; Complaint Handling; Marketing and Sales; Producer Licensing; Policyholder Services; Underwriting and Rating and Claims. Each business area reviewed includes the identification and evaluation of the insurer's internal controls.

### **REINSURANCE**

#### **Assumed Reinsurance**

The Company has no assumed reinsurance.

#### **Ceded Reinsurance**

The company enters into various excess-of-loss and catastrophe reinsurance agreements in order to manage the risk of large losses and catastrophic events. The Company's wholly-owned subsidiary, BCIC, is also a party to these transactions.



Barnstable County Mutual Insurance Company

**FINANCIAL STATEMENTS**

The following financial exhibits are based on the statutory financial statements prepared by management and filed by the Company with the Division and present the financial condition of the Company for the period ending December 31, 2015. The financial statements are the responsibility of Company management.

Statement of Assets, Liabilities, Surplus and Other Funds as of December 31, 2015

Statement of Income for the Year Ended December 31, 2015

Reconciliation of Capital and Surplus for Each Year in the Five-Year Period Ended December 31, 2015

Barnstable County Mutual Insurance Company  
Statement of Assets, Liabilities, Surplus and Other Funds  
As of December 31, 2015

Assets	As Reported by the Company
Bonds	\$41,760,884
Common stocks	42,678,010
Real Estate – Properties occupied by company	2,852,697
Cash & short term investments	7,134,591
Other invested assets	80,869
Receivables for securities	648,333
Subtotals, cash and invested assets	95,155,384
Investment income due and accrued	424,610
Uncollected premiums and agents' balances	1,193,242
Deferred premiums	2,024,611
Amounts recoverable from reinsurers	147
Net deferred tax asset	21,827
Receivables from parent, subsidiaries and affiliates	902
Aggregate write-ins	2,105,195
Total Assets	<u>\$100,925,918</u>

Barnstable County Mutual Insurance Company  
Statement of Assets, Liabilities, Surplus and Other Funds (continued)  
As of December 31, 2015

<b>Liabilities</b>	As Reported by the Company
Losses	\$2,785,555
Loss adjustment expenses	1,053,568
Commissions payable, contingent commissions and other similar charges	683,970
Other expenses	1,184,717
Taxes, licenses and fees	236,572
Current federal and foreign income taxes	180,047
Unearned Premiums	13,836,647
Advanced Premiums	207,000
Ceded reinsurance premiums payable	149,128
Payable for securities	649,004
Total Liabilities	<u>20,966,209</u>
Aggregate write-ins for special surplus funds	9,703,439
Unassigned funds (surplus)	<u>70,256,270</u>
Surplus as regards policyholders	<u>79,959,709</u>
Total Liabilities, Surplus and Other Funds	<u><u>\$100,925,918</u></u>

Barnstable County Mutual Insurance Company  
Statement of Income  
For the Year Ended December 31, 2015

	As Reported by the Company
Premiums earned	<u>\$16,976,891</u>
Deductions:	
Losses incurred	7,925,574
Loss adjustment expenses incurred	1,897,192
Other underwriting expenses incurred	<u>7,975,357</u>
Total underwriting deductions	<u>17,798,123</u>
Net underwriting gain (loss)	<u>(821,233)</u>
Net investment income earned	1,010,777
Net realized capital gains (losses) less capital gains tax of \$578,105	<u>1,122,203</u>
Net investment gain (loss)	2,132,980
Net gain or (loss) from agents' or premium balances charged off	(7,170)
Aggregate write-ins for miscellaneous income	<u>(21,925)</u>
Total other income	(29,095)
Net income before dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes	<u>1,282,652</u>
Federal and foreign income taxes incurred	<u>(23,087)</u>
Net income	<u><u>\$ 1,305,739</u></u>

Barnstable County Mutual Insurance Company  
Reconciliation of Capital and Surplus  
For Each Year in the Five-Year Period Ended December 31, 2015

	2015	2014	2013	2012	2011
Capital and surplus, December 31, prior year	\$81,359,905	\$78,447,927	\$71,638,413	\$65,636,642	\$63,166,791
Net income (loss)	1,305,739	3,869,517	2,377,113	4,288,377	2,960,350
Change in net unrealized capital gains or (losses)	(1,593,181)	(558,991)	4,162,266	1,724,173	(900,117)
Change in net deferred income tax	719,018	250,046	(58,250)	84,679	(117,280)
Change in nonadmitted assets	(2,172,494)	(345,769)	114,398	(95,458)	526,898
Cumulative effect of changes in accounting principles			(602,083)		
Aggregate write-ins for gains and losses in surplus	340,722	(302,825)	816,070		
Change in capital and surplus for the year	(1,400,196)	2,911,978	6,809,514	6,001,771	2,469,851
Capital and surplus, December 31, current year	<u>\$79,959,709</u>	<u>\$81,359,905</u>	<u>\$78,447,927</u>	<u>\$71,638,413</u>	<u>\$65,636,642</u>

Barnstable County Mutual Insurance Company

**ANALYSIS OF CHANGES IN FINANCIAL STATEMENTS RESULTING FROM  
THE EXAMINATION**

There have been no changes to the financial statements as a result of the examination.

**COMMENTS ON FINANCIAL STATEMENT ITEMS**

As a result of the examination, no issues with non-compliance, adverse findings, or material changes to the financial statements were identified.

The Division engaged Lewis & Ellis to review the reasonableness of the loss and LAE reserves of the Company as of December 31, 2015. The review was conducted in a manner consistent with the Code of Professional Conduct and the Qualification Standards of the American Academy of Actuaries and the Standard of Practice adopted by the Actuarial Standards Board.

Lewis & Ellis performed an analysis of the loss and LAE reserves evaluated as of December 31, 2015. With regard to comparisons to the estimates derived by the Company's Appointed Actuary Ernst & Young, LLP, Lewis & Ellis noted that as of December 31, 2015, the Company held net loss and LAE reserves slightly higher than the Lewis & Ellis's central estimate.

The Division's actuary, Lewis & Ellis, noted the central estimate of the net loss and LAE reserves of \$3.5M, which is lower than the booked reserves of \$3.8M. The net booked reserves is within the Lewis & Ellis range of reasonable estimates. In the opinion of Lewis & Ellis, the net loss and loss adjustment expense reserves carried by the Company as of December 31, 2015, make a reasonable provision for all unpaid loss and loss adjustment expense obligations of the Company.

The table below summarizes a comparison of Lewis & Ellis's range of reasonable estimates for loss and LAE reserves to the Company's net carried loss and LAE reserves as of December 31, 2015.

	Lewis & Ellis, Inc. Central Estimate	Company Carried	Position ("+" means redundant)	Lewis & Ellis Range
Gross	\$4.3 million	4.5 million	0.2 (+4%)	3.7 to 5.0 million
Net	\$3.5 million	3.8 million	0.3 (+9%)	3.1 to 3.9 million

Barnstable County Mutual Insurance Company

**SUBSEQUENT EVENTS**

Subsequent to December 31, 2015, there were no material items that came to our attention for inclusion in the report of examination.

**SUMMARY OF RECOMMENDATIONS**

There are no recommendations being made as part of this examination report.

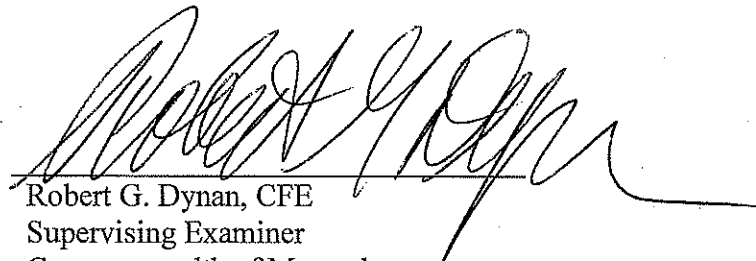
Barnstable County Mutual Insurance Company

**SIGNATURE PAGE**

Acknowledgement is made of the cooperation and courtesies extended by the officers and employees of the Company during the examination.

The assistance rendered by the following Division examiner who participated in this examination is hereby acknowledged.

Steven Tsimtsos, CFE, Financial Examiner II



Robert G. Dynan, CFE  
Supervising Examiner  
Commonwealth of Massachusetts  
Division of Insurance