



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

***REPORT OF EXAMINATION OF THE***  
**BARNSTABLE COUNTY INSURANCE COMPANY**

**Yarmouth Port, Massachusetts**

**As of December 31, 2020**

**NAIC GROUP CODE 0919**

**NAIC COMPANY CODE 41955**

**EMPLOYER ID NUMBER 04-2747990**

# BARNSTABLE COUNTY INSURANCE COMPANY

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**COMMONWEALTH OF MASSACHUSETTS**  
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May 20, 2022

The Honorable Gary D. Anderson  
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, and other applicable statutes, an examination has been made of the financial condition and affairs of

**BARNSTABLE COUNTY INSURANCE COMPANY**

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

## Barnstable County Insurance Company

### **SCOPE OF EXAMINATION**

Barnstable County Insurance Company ("Company") was last examined as of December 31, 2015 by the Massachusetts Division of Insurance ("Division"). The current examination was also conducted by the Division and covers the five-year period from January 1, 2016, through December 31, 2020, including any material transactions and/or events occurring subsequent to the examination date and noted during the course of this examination.

Concurrent with this examination, the following insurance affiliate in the Barnstable Group was also examined and a separate Report of Examination has been issued:

#### Barnstable County Mutual Insurance Company

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 Laws. The Handbook requires that we plan and perform the examination to evaluate the financial condition and identify current and 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 has been audited annually by PricewaterhouseCoopers LLP ("PwC"), an independent certified public accounting firm, for years 2016 and 2017, and by Marcum LLP ("Marcum"), another independent certified public accounting firm, for years 2018 to 2020. The firms expressed unqualified opinions on the Company's financial statements for calendar years 2016 through 2020. A review and use of the Certified Public Accountants' work papers was made to the extent deemed appropriate and effective.

Representatives from the firm of The INS Companies ("INS") 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 information technology (IT) and actuarial services.

## **SUMMARY OF SIGNIFICANT FINDINGS OF FACT**

There were no significant findings during the previous examination and there are no significant findings related to the current examination

## **COMPANY HISTORY**

The Company was incorporated December 30, 1981 under the laws of the Commonwealth of Massachusetts and commenced business June 1, 1982. Paid up capital of \$475,000 consisted of 9,500 common shares of stock at a par value of \$50 per share. On February 1, 1982, the parent company, Barnstable County Mutual Insurance Company ("BCMIC"), purchased all of the authorized shares at a price of \$150 per share, resulting in \$475,000 of paid-in capital and \$950,000 of paid-in surplus.

In 1994, BCMIC paid in an additional \$250,000 for a total of \$1,200,000 in paid-in surplus.

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

### **Dividends to Stockholders**

During the examination period, the Company did not pay dividends to its stockholders.

## **MANAGEMENT AND CONTROL**

### **Board of Directors Minutes**

The minutes of meetings of the Board of Directors ("Board") 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 the meetings of the Board.

### **Articles of Organization and Bylaws**

The articles of organization and bylaws of the Company were reviewed. There have been no updates or amendments to the Company's bylaws since the last examination.

## Barnstable County 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 Board of Directors shall consist of not less than nine nor more than thirteen Directors.

At December 31, 2020, the Company's Board of Directors consisted of the following:

<u>Director</u>	<u>Title</u>
Shawn J. Almeida	Director
John L. DeMello	President & Chief Executive Officer
Jane M. Remy	Director
Hamilton N. Shepley	Director
David G. Brown	Director
Rosemary M. McAndrew	Director
Charles H. Ritch	Director
Robert A. Talerman	Director
Gary M. DellaPosta	Director
Christine M. Murphy	Executive Vice President & Chief Financial Officer
William W. Saltonstall	Director
Michael J. Ayres	Director

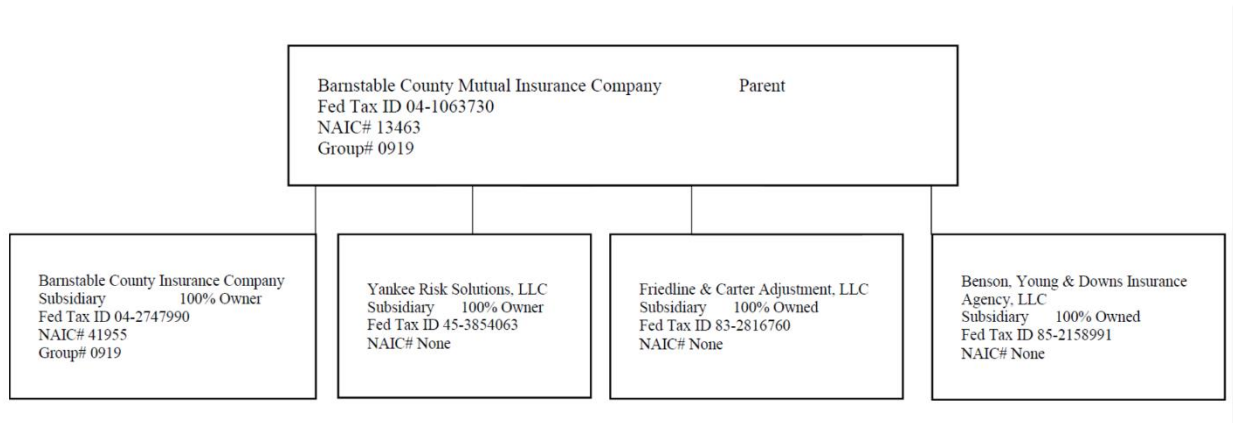
### Officers

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. The officers of the Company as of December 31, 2020 were as follows:

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

## Barnstable County Insurance Company

### Organizational Chart



### Affiliated Companies

As stated in the Insurance Holding Company System Form B and Form C as filed with the Division, the Company is a member of a holding company system and is subject to the registration requirements of Massachusetts General Laws, Chapter 175, Section 206C and Regulation 211 CMR 7.00. The Company is a subsidiary of the ultimate controlling party of the group, Barnstable County Mutual Insurance Company.

### Transactions and Agreements with Subsidiaries and Affiliates

#### *Administration and Management Services Agreements*

The Company receives certain accounting, management and other services from its parent, Barnstable County Mutual Insurance Company. In consideration of such services, the Company agreed to pay the costs and expenses of such services.

#### *Tax Sharing Agreement*

The Company participates in a written tax allocation agreement with its parent and affiliates. 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. Most 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 line of business is homeowners multi-peril, provided 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 called pursuant to authority in Massachusetts General Laws Chapter 175, Section 4, a market conduct examination. The examination is conducted at the direction of, and under the overall management and control of, the market conduct examination staff of the Division.

Representatives from the firm of Risk Regulatory Consulting have been 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 are 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 and its parent, BCMIC, participate in voluntary and involuntary pools. The companies cede their scheduled premiums and losses to the pools and assume back a proportional share of the pools' premium and losses.

### **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 parent, BCMIC, is also a party to these transactions.

### **Involuntary Pools and Associations**

The Company is a participant in the mandatory pool and association of Massachusetts FAIR Plan as a requirement of doing business in Massachusetts.



Barnstable County 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, 2020. The financial statements are the responsibility of Company management.

Statement of Assets, Liabilities, Surplus and Other Funds as of December 31, 2020

Statement of Income for the Year Ended December 31, 2020

Reconciliation of Capital and Surplus for Each Year in the Five-Year Period Ended December 31, 2020

# Barnstable County Insurance Company

## Barnstable County Insurance Company Statement of Assets, Liabilities, Surplus and Other Funds

<b>Assets</b>	<b>Per Annual Statement</b>
Bonds	\$16,311,898
Stocks	
Preferred stocks	0
Common stocks	6,568,677
Real Estate	
Properties occupied by the company	0
Properties held for the production of income	0
Cash, cash equivalents and short-term investments	5,651,194
Other invested assets	28,112
Receivables for securities	0
Subtotals, cash and invested assets	28,559,881
Investment income due and accrued	126,510
Premiums and considerations:	
Uncollected premiums and agents' balances	543,282
Deferred premiums, agents' balances and installments booked but deferred and not yet due	575,393
Reinsurance:	
Amounts recoverable from reinsurers	0
Funds held by or deposited with reinsured companies	0
Current federal and foreign income tax recoverable and interest thereon	0
Net deferred tax asset	0
Electronic data processing equipment and software	0
Receivables from parent, subsidiaries and affiliates	0
Aggregate write-ins for other than invested assets	227,567
Total assets	\$30,032,633
<b>Liabilities</b>	
Losses	\$237,691
Reinsurance payable on paid losses and loss adjustment expenses	0
Loss adjustment expenses	140,975
Commissions payable, contingent commissions and other similar charges	281,569
Other expenses (excluding taxes, licenses and fees)	(39,523)
Taxes, licenses and fees (excluding federal and foreign income taxes)	14,727
Current federal and foreign income taxes	71,626
Net deferred tax liability	392,581
Borrowed money	0
Unearned premiums	2,359,387
Advance premium	72,687
Ceded reinsurance premiums payable (net of ceding commissions)	290,528
Amounts withheld or retained by company for account of others	0
Provision for reinsurance	0
Payable to parent, subsidiaries and affiliates	283,431
Payable for securities	40,000
Aggregate write-ins for liabilities	0
Total liabilities	4,145,679
Common capital stock	950,000
Gross paid in and contributed surplus	1,200,000
Unassigned funds (surplus)	23,736,954
Surplus as regards policyholders	25,886,954
Total liabilities, surplus and other funds	\$30,032,633

# Barnstable County Insurance Company

## Statement of Income For the Year Ended December 31, 2020

	<u>Per Annual Statement</u>
Premiums earned	\$2,172,166
Deductions:	
Losses incurred	226,720
Loss adjustment expenses incurred	315,670
Other underwriting expenses incurred	<u>1,435,540</u>
Total underwriting deductions	<u>1,977,930</u>
Net underwriting gain (loss)	<u>194,236</u>
Net investment income earned	316,241
Net investment capital gains (losses) less capital gains tax of \$141,271	<u>531,449</u>
Net investment gain (loss)	<u>847,690</u>
Net gain (loss) from agents' or premium balances charged off	(74,956)
Finance and service charges not included in premiums	0
Aggregate write-ins for miscellaneous income	<u>(2,342)</u>
Total other income	<u>(77,298)</u>
Net income before dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes	964,628
Dividends to policyholders	<u>0</u>
Net income, after dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes	<u>964,628</u>
Federal and foreign income taxes incurred	<u>131,982</u>
Net income	<u><u>\$832,646</u></u>

# Barnstable County Insurance Company

## Reconciliation of Capital and Surplus For Each Year in the Five-Year Period Ended December 31, 2020

	2020	2019	2018	2017	2016
	<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>                    </u>
Capital and surplus, December 31 prior year	\$24,657,274	\$22,917,966	\$22,695,036	\$21,141,690	\$20,606,977
Net income	832,646	851,036	826,905	980,434	960,731
Change in net unrealized capital gains or (losses)	350,619	892,551	(604,241)	616,722	(429,670)
Change in net deferred income tax	45,734	(3,353)	1,556	(43,858)	3,700
Change in nonadmitted assets	<u>681</u>	<u>(926)</u>	<u>(1,290)</u>	<u>48</u>	<u>(48)</u>
Net change in capital and surplus for the year	<u>1,229,680</u>	<u>1,739,308</u>	<u>222,930</u>	<u>1,553,346</u>	<u>534,713</u>
Capital and surplus, December 31 current year	<u>\$25,886,954</u>	<u>\$24,657,274</u>	<u>\$22,917,966</u>	<u>\$22,695,036</u>	<u>\$21,141,690</u>

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

There have been no changes made 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 INS to review the reasonableness of the loss and LAE reserves of the Company as of December 31, 2020. 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.

INS performed a review of the loss and LAE reserves evaluated as of December 31, 2020. The scope of the review includes conducting an actuarial analysis of the Company's net and gross loss and LAE reserves. The analysis includes an Actuarial Central Estimate ("ACE") as well as a range of reasonable estimates.

INS noted the INS ACE of the net loss and LAE reserve of \$0.281 million is lower than the Company carried reserve of \$0.379 million by \$0.098 million, or 25.7% of reserves. Carried net loss and LAE reserves are within the INS range of reasonable estimates from \$0.198 million to \$0.505 million. The INS ACE of the gross loss and LAE reserve of \$0.308 million is lower than the Company carried reserve of \$0.386 million by \$0.078 million, or 20.3% of reserves. Carried gross loss and LAE reserves are within the INS reserve range of reasonable estimate from \$0.209 million to \$0.555 million.

The table below summarizes a comparison of INS' range of reasonable estimates for loss and LAE reserves to the Company's net carried loss and LAE reserves as of December 31, 2020.

	INS Central Estimate	Company Carried	Position ("+" means redundant)	INS Range
Net	\$0.281 million	\$0.379 million	\$0.098 million (+25.7%)	\$0.198 million to \$0.505

**SUBSEQUENT EVENTS**

No subsequent events or transactions that occurred after the December 31, 2020 examination date were noted that would have had a material effect on the Company's financial statements.

**SUMMARY OF RECOMMENDATIONS**

There were no significant recommendations noted by the examination team for improvements in processes, activities and/or controls that should be noted in this report.

Barnstable County 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 INS Companies ("INS") and the following Division examiner who participated in this examination hereby is acknowledged:

Guangping Wei, CFE, Examiner III

*Robert G. Dynan*

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Robert G. Dynan, CFE  
Supervising Examiner & Examiner-In-Charge  
Commonwealth of Massachusetts  
Division of Insurance