

**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, 2020**

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

# BARNSTABLE COUNTY MUTUAL INSURANCE COMPANY

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**COMMONWEALTH OF MASSACHUSETTS**  
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COMMISSIONER OF INSURANCE

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 MUTUAL 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.

## **SCOPE OF EXAMINATION**

Barnstable County Mutual 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 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 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.

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.

In 2019, Barnstable completed the purchase of 100% of the assets of Friedline & Carter Adjustment, LLC ("Friedline"), a loss adjustment company. Friedline has also been treated as a non-admitted asset.

In 2020, Barnstable acquired all assets of Benson, Young & Downs Agency, an insurance agency.

## Barnstable County Mutual Insurance Company

### Dividends to Policyholders

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

## **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.

### 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

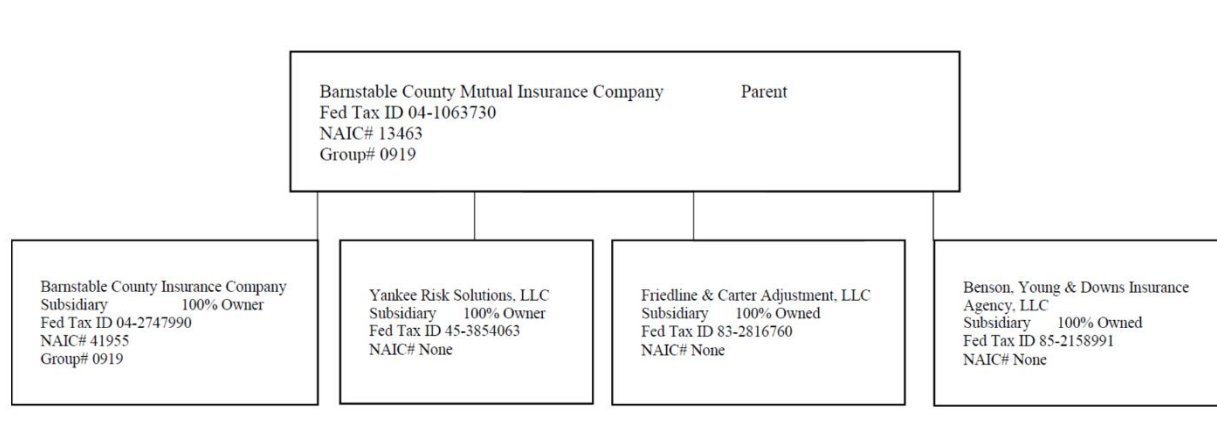
## Barnstable County Mutual Insurance Company

### 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

### 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 the ultimate controlling party of the group consisting of five entities, including two insurance and three non-insurance entities.

## Barnstable County Mutual Insurance Company

### Transactions and Agreements with Subsidiaries and Affiliates

#### *Administration and Management Services Agreements*

The Company and its subsidiaries have cost sharing agreements. The Company provides certain accounting, management and other services to its subsidiaries. In consideration of such services, subsidiaries agreed to pay the costs and expenses of such services.

#### *Tax Sharing Agreement*

The Company participates in a written tax allocation agreement with its subsidiaries. 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 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 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 wholly-owned subsidiary, BCIC, 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 wholly-owned subsidiary, BCIC, 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 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, 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 Mutual Insurance Company

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

	Per Annual Statement
<b>Assets</b>	
Bonds	\$44,095,440
Stocks	
Preferred stocks	0
Common stocks	42,242,960
Real Estate	
Properties occupied by the company	2,504,031
Properties held for the production of income	0
Cash, cash equivalents and short-term investments	11,498,945
Other invested assets	16,382,300
Receivables for securities	0
Subtotals, cash and invested assets	<u>116,723,675</u>
Investment income due and accrued	387,072
Premiums and considerations:	
Uncollected premiums and agents' balances in the course of collection	203,836
Deferred premiums, agents' balances and installments booked but deferred and not yet due	3,297,926
Reinsurance:	
Amounts recoverable from reinsurers	31,525
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	368,213
Aggregate write-ins for other than invested assets	9,941,319
Total assets	<u>\$130,953,56</u>
<b>Liabilities</b>	
Losses	\$2,881,473
Reinsurance payable on paid losses and loss adjustment expenses	0
Loss adjustment expenses	1,363,238
Commissions payable, contingent commissions and other similar charges	935,298
Other expenses (excluding taxes, licenses and fees)	2,517,644
Taxes, licenses and fees (excluding federal and foreign income taxes)	102,599
Current federal and foreign income taxes	55,259
Net deferred tax liability	949,817
Borrowed money	7,499,122
Unearned premiums	14,075,280
Advance premium	265,646
Ceded reinsurance premiums payable (net of ceding commissions)	(10,411)
Amounts withheld or retained by company for account of others	0
Provision for reinsurance	0
Payable for securities	80,000
Aggregate write-ins for liabilities	0
Total liabilities	<u>30,714,965</u>
Aggregate write-ins for special surplus funds	12,343,579
Unassigned funds (surplus)	87,895,022
Surplus as regards policyholders	<u>100,238,601</u>
Total liabilities, surplus and other funds	<u>\$130,953,56</u>

# Barnstable County Mutual Insurance Company

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

	Per Annual Statement
Premiums earned	\$17,849,759
Deductions:	
Losses incurred	3,802,426
Loss adjustment expenses incurred	2,222,212
Other underwriting expenses incurred	9,072,675
Total underwriting deductions	15,097,313
Net underwriting gain (loss)	2,752,446
Net investment income earned	694,520
Net investment capital gains (losses) less capital gains tax of \$106,817	401,836
Net investment gain (loss)	1,096,356
Net gain (loss) from agents' or premium balances charged off	(2,989)
Aggregate write-ins for miscellaneous income	(34,444)
Total other income	(37,433)
Net income before dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes	3,811,369
Dividends to policyholders	0
Net income, after dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes	3,811,369
Federal and foreign income taxes incurred	897,846
Net income	\$2,913,523

# Barnstable County Mutual Insurance Company

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

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Capital and surplus, December 31 prior year	\$93,873,813	\$89,086,358	\$90,820,678	\$83,303,215	\$79,959,709
Net income	2,913,523	1,266,838	1,144,073	3,570,544	6,223,834
Change in net unrealized capital gains or (losses)	4,442,267	5,089,320	(2,750,529)	4,233,967	(3,037,684)
Change in net deferred income tax	602,362	538,267	(220,953)	(642,311)	(107,512)
Change in nonadmitted assets	(615,902)	(1,875,450)	83,256	771,601	335,916
Aggregate write-ins for gains or (losses) in surplus	<u>(977,462)</u>	<u>(231,519)</u>	<u>9,833</u>	<u>(416,338)</u>	<u>(71,048)</u>
Net change in capital and surplus for the year	<u>6,364,788</u>	<u>4,787,456</u>	<u>(1,734,320)</u>	<u>7,517,463</u>	<u>3,343,506</u>
Capital and surplus, December 31 current year	<u><u>\$100,238,601</u></u>	<u><u>\$93,873,813</u></u>	<u><u>\$89,086,358</u></u>	<u><u>\$90,820,678</u></u>	<u><u>\$83,303,215</u></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 \$4.019 million is lower than the Company carried reserve of \$4.244 million by \$0.225 million, or 5.3% of reserves. Carried net loss and LAE reserves are within the INS range of reasonable estimates from \$3.079 million to \$5.336 million. The INS ACE of the gross loss and LAE reserve of \$4.456 million is lower than the Company carried reserve of \$4.563 million by \$0.107 million, or 2.3% of reserves. Carried gross loss and LAE reserves are within the INS reserve range of reasonable estimate from \$3.350 million to \$5.994 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	\$4.019 million	\$4.244 million	\$0.225 million (+5.3%)	\$3.079 million to \$5.336 million

**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.

**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