

THE BARNSTABLE

SINCE 1833

2018 Annual Report

*Barnstable County Mutual
Insurance Company*

*Barnstable County
Insurance Company*



915 ROUTE 6A, YARMOUTH PORT, MA 02675
P: 800-310-9310 | F: 508-362-8025
WWW.THEBARNSTABLE.COM

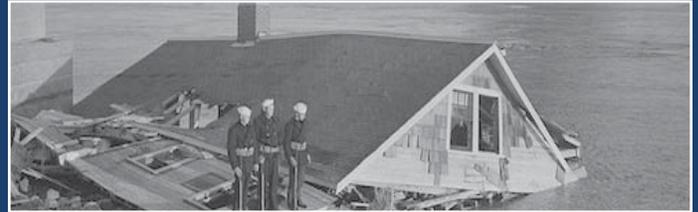
THE BARNSTABLE STORY

The history of the Barnstable County Mutual Insurance Company, known today as The Barnstable, began in 1833. A group of Cape Codders, out of a love for their community, banded together and pooled their resources, with the primary goal of protecting their modest homes from the peril of fire. They also shared another objective: to provide unquestionably reliable, fair and sustainable insurance for the Cape Cod community. Much has changed since 1833, but that spirit still drives The Barnstable.

For The Barnstable's first century, its greatest risk was the possibility that every home in its portfolio could burn in the same fire. To mitigate the threat of such a conflagration, the company established a 100-foot minimum distance between any two insured homes. This strategy meant that The Barnstable did not have to hold much capital to support its business and could share most of its profits with policyholders in the form of dividends. In fact, the company was so successful in managing its risks that by 1845 it was returning over 100 percent of annual premiums to policyholders.

The Great New England Hurricane of 1938 represented a watershed moment for The Barnstable and the entire insurance industry. This intense, destructive

storm devastated homes across the region. But most of the enormous property damage was not covered by insurance as very few homeowners had purchased coverage for wind damage. After the '38 storm, the market demanded wind protection, and the insurance industry introduced the current homeowner policy.



Roof of home sunken in the Cape Cod Canal in the 1938 Hurricane aftermath.

When The Barnstable adopted the homeowner policy in 1956, it significantly increased risk relative to fulfilling its mission. Now every home in its portfolio could suffer a loss from the same windstorm, a threat to the very existence of the company. No longer could it pay policyholder dividends, as it needed to retain capital to fund payments in case of a severe windstorm. And because the storm potential exceeded its surplus, The Barnstable also had to borrow additional capital in the form of catastrophe reinsurance.

THE BARNSTABLE TODAY

Today, **capital adequacy**—access to enough money—is the lifeblood of our mission. Maintaining financial stability is the key to sustainability in the face of another storm like the 1938 hurricane. At the same time, we must carefully manage the size of our insured portfolio to limit the catastrophic loss potential.

Investor demands to produce high returns can drive public and venture-capital-backed insurance companies to carry too little capital. But because The Barnstable is organized as a mutual insurance company, we don't face such pressure. Instead, we can stay true to our mission of providing high-quality coastal home insurance.

Since 1833, The Barnstable, the only insurance company born on Cape Cod, has been reliably serving the Cape and its coastal neighbors. As we have always done, we approach policyholder claims

as our product and service, addressing them with excellence, quickly and ethically. Like the band of Cape Codders whose love of this region led them to establish the company that ultimately became The Barnstable, we live in this community and care about it. These core beliefs set us apart from our competition.

We hope that you never have to face an insured loss, but The Barnstable is the company you want to be with if you ever do. We appreciate the trust and support of our independent Agents and Policyholders, and we look forward to continued success in 2019.

JOHN L. DEMELLO
President & CEO

FINANCIAL POSITION

For 2018, weather extremes and market volatility loomed large. January's bitter cold and March's three Nor'Easters led to an insured loss of \$6.5 million, typically an entire year's total. Meanwhile, public equity markets, volatile throughout 2018, ended the year on a negative note, with an overall total return of negative 6.26% for The Barnstable's portfolio. Although we've since recovered these market losses, they contributed to a 2% decline in policyholder surplus for 2018.

The portfolio's total insured value grew by 1.3% in 2018 despite a 5% decline in policies in-force. Surplus capital declined by 2%, but reinsurance capital was increased by 2% (\$290,620,000 to \$296,430,000). Thus, overall capital remained in line with 2017.

In short, we effectively managed 2018's challenges and provided real value to our policyholders during their time of greatest need. Furthermore, 2018's extreme conditions taught important lessons to help us increase our relevancy and sustainability.

Assets:	December-18	December-17
Bonds, amortized cost	\$55,639,567	\$58,335,603
Common stocks, market value	17,576,069	24,004,277
Real estate, net of depreciation	2,534,104	2,644,890
Cash & short-term investments	19,373,776	15,268,220
Other invested assets	9,703,185	7,324,042
Premium balances	3,848,595	4,083,495
Other assets	2,883,491	3,190,389
Total Assets	\$111,558,787	\$114,850,916

Liabilities:	December-18	December-17
Loss reserves	\$2,770,694	\$2,673,700
Loss adjustment expense reserves	1,126,113	1,232,188
Unearned premiums	15,221,782	15,459,489
Net deferred tax liability	406,620	1,146,538
Other expenses	2,947,220	3,518,323
Total Liabilities	\$22,472,429	\$24,030,238

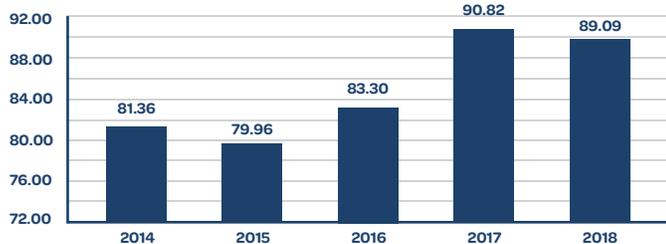
Surplus:	December-18	December-17
Catastrophe reserve*	\$9,295,725	\$9,148,195
Unassigned surplus	79,790,633	81,672,483
Total Surplus	\$89,086,358	\$90,820,678

Total Liabilities & Surplus **\$111,558,787** **\$114,850,916**

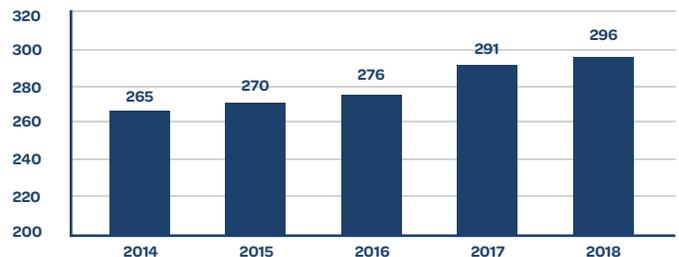
* Estimated pre-tax cost of a hurricane with a probability of occurrence every 100 years, net of catastrophe reinsurance recoveries.

CAPITAL ADEQUACY

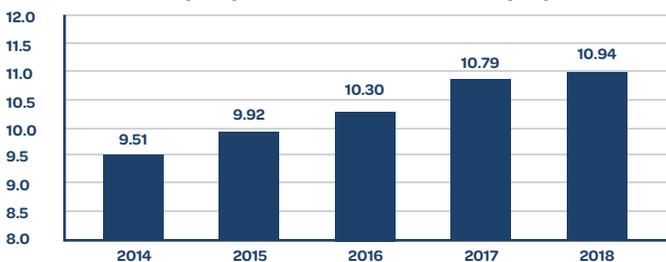
Surplus Capital (\$M)



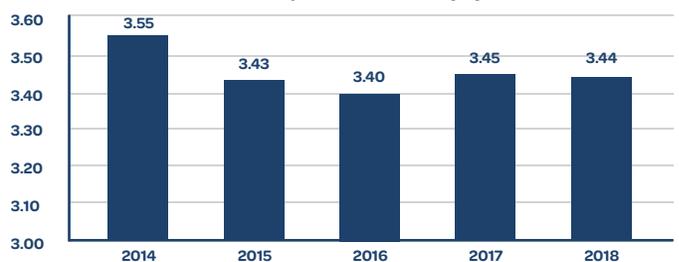
Catastrophe Reinsurance Capital (\$M)



(TIV) Total Insured Values* (\$B)



Capital to TIV (%)**



* The maximum coverage limits of all in-force policies, representing coverages A (dwelling), B (other structures), C (contents) and D (loss of use).

** Capital, comprised of surplus and catastrophe reinsurance, as a percentage of the total insured values.

DIRECTORS

(As of March 1, 2019)

Shawn J. Almeida
David G. Brown
Gary M. DellaPosta
John L. DeMello
Rosemary M. McAndrew
Christine M. Murphy
Jane M. Remy
Charles H. Ritch
William W. Saltonstall
Hamilton N. Shepley
Paul R. Silva
Robert A. Talerman
Gerard P. Williams

OFFICERS

(As of March 1, 2019)

John L. DeMello
President and Chief Executive Officer

Christine M. Murphy
Executive Vice President and Chief Financial Officer

Deborah A. Sutton
Assistant Vice President and Secretary

Howard W. Perkins
Assistant Vice President and Treasurer

**Rated A (Excellent) by A.M. Best,
the leading insurance rating organization.**