2023 ANNUAL REPORT

THE BARNSTABLE
SINCE 1833

STRENGTH AND SECURITY IN THE FACE OF ADVERSITY

In 1833, a group of Cape Codders with a shared devotion to their community pooled their resources and formed *The Barnstable County Mutual Insurance Company.* This simple act began **The Barnstable's** story.

At that time, their primary goal was protecting the value of their modest homes from the threat of fire. But they also shared another objective, one that still drives **The Barnstable**: providing unquestionably reliable, fair, and sustainable insurance for the Cape Cod community.

For its first 100 years, the greatest peril **The Barnstable** faced remained the possibility that every home in its portfolio could be destroyed in the same conflagration. So, to mitigate this threat, the Company decided to establish a 100-foot minimum distance between any two insured homes.

This decision proved to be the ideal strategic approach. It meant that **The Barnstable** did not have to hold much capital to support its business. Instead, it could share profits with policyholders in the form of dividends. In fact, the Company managed risk so effectively that by 1845, it was returning over 100 percent of annual premiums to policyholders.

But in 1938, all that changed for **The Barnstable** and the rest of the insurance industry when a true watershed event occurred: the Great New England Hurricane. This catastrophic storm obliterated scores of homes across the region. However, most of the storm's devastation was not covered by insurance because few homeowners had bought coverage for wind damage. In the aftermath of the '38 storm, the market demanded wind protection, and so the insurance industry introduced the current homeowner policy.

When **The Barnstable** adopted this homeowner policy in 1956, the immediate result was significant 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. Because the Company needed to retain capital to fund payments in case of a severe windstorm, it could no longer pay policyholder dividends. And because the storm potential exceeded its surplus, **The Barnstable** now had to borrow additional capital in the form of catastrophe reinsurance.

THE BARNSTABLE TODAY

Providing top-quality coastal home insurance for years to come remains **The Barnstable's** primary goal. As insurance carriers across the country and the world operate against the backdrop of unprecedented challenges, we're more committed—and more prepared—than ever to fulfill this pledge.

Some of these challenges are obvious. Although we have been lucky on Cape Cod, severe weather events around the world, energized by climate change, now occur more frequently and with greater intensity, resulting in catastrophic wind, water, and fire damage, along with billions in insurance losses.

But aside from these huge insurance losses, the challenges facing insurance carriers—and therefore policyholders—are less obvious. They can be traced to macroeconomic factors affecting the supply and price of **reinsurance**, a form of borrowed money that serves as the bedrock of capital supporting insurance carriers like **The Barnstable**.

The reinsurance market is global and unregulated, with pricing purely driven by the forces of supply and demand. Over recent decades, demand for reinsurance has steadily climbed, while inflation and interest rates have led to dramatic shifts in its supply and pricing.

Following the 2008 financial crash, low inflation and interest rates affected global capital flows. Investors seeking returns focused on risk assets such as public and private equities, including reinsurance, investing in catastrophe bonds and other risk-transfer assets. The result was an oversupply of reinsurance and a steady decline in its pricing over the ensuing decade.

In 2020, the pandemic and the federal government's actions in response abruptly reversed these economic conditions. The resulting spike in inflation and interest rates pulled investor capital from the reinsurance market, leading to a contraction in its overall supply and a sharp pricing hike. Insurance carriers like **The Barnstable** now face staggering increases in reinsurance cost, which must be passed through to policyholders.

We are happy to share that **The Barnstable** was prepared for this upheaval. We had the foresight to lock in reinsurance pricing for multi-year terms, so the impact on our policyholders will be more gradual than it might have been. Effective May 1, 2024, policy rates will reflect, on average, a 20-percent increase. In the next few years, additional increases may be necessary, but we expect them to be less significant.

We remain nimble, shifting strategies and embracing innovations whenever situations call for it. Make no mistake about it: **The Barnstable** is in it for the long run, prepared for the challenges ahead.

FINANCIAL POSITION

During 2023, the American economy continued to grow despite high interest rates and fears of recession. This positive turn included risk assets such as public equities, which recovered their losses from 2022 and reached near new highs. A soft landing following the Pandemic-induced surge in growth and inflation by the end of 2023 seemed realistic.

This upturn included **The Barnstable**, which saw its financial strength improve in 2023. As reflected in Capital-to-Total Insured Value (TIV), the key solvency ratio rose from 3.36 percent to 3.48 percent.

Meanwhile, overall capital—comprising policyholder surplus and catastrophe reinsurance coverage—grew by 1.5 percent in 2023, driven by a 6 percent growth in policyholder surplus primarily from investment gains. Investments contributed three quarters of this surplus growth, with the remaining growth coming from underwriting profits.

The Barnstable also continued to take steps designed to control risk. In accordance with our Enterprise-Risk-Management (ERM) program, we reduced the TIV of **The Barnstable's** property portfolio by 2 percent, from $12.7 billion to $12.5 billion.

In particular, we non-renewed policies for property in the most vulnerable areas: homes within 1,500 feet of the coastline where wind damageability can be severe. Partly offsetting this reduction in risk, the average coverage A—Dwelling limit rose by 7 percent in 2023, 3 points above normal, as we continued to play catch up in terms of keeping coverage limits in sync with increases in current building costs due to rapid inflation.

As in past years, catastrophic weather in 2023 continued to cause loss in the Company's core insurance business. During the first week of February, temperatures plummeted below zero for about 48 hours and then quickly rose to over 40 degrees Fahrenheit—the perfect storm for frozen pipes. Consequently, **The Barnstable** had 45 pipe-freeze claims totaling about $2.7 million in loss. In spite of this catastrophic freeze, the Company still managed to post a profit of 7 percent of net revenue, due in part to the fact that non-catastrophe claims were down 23 percent in 2023.

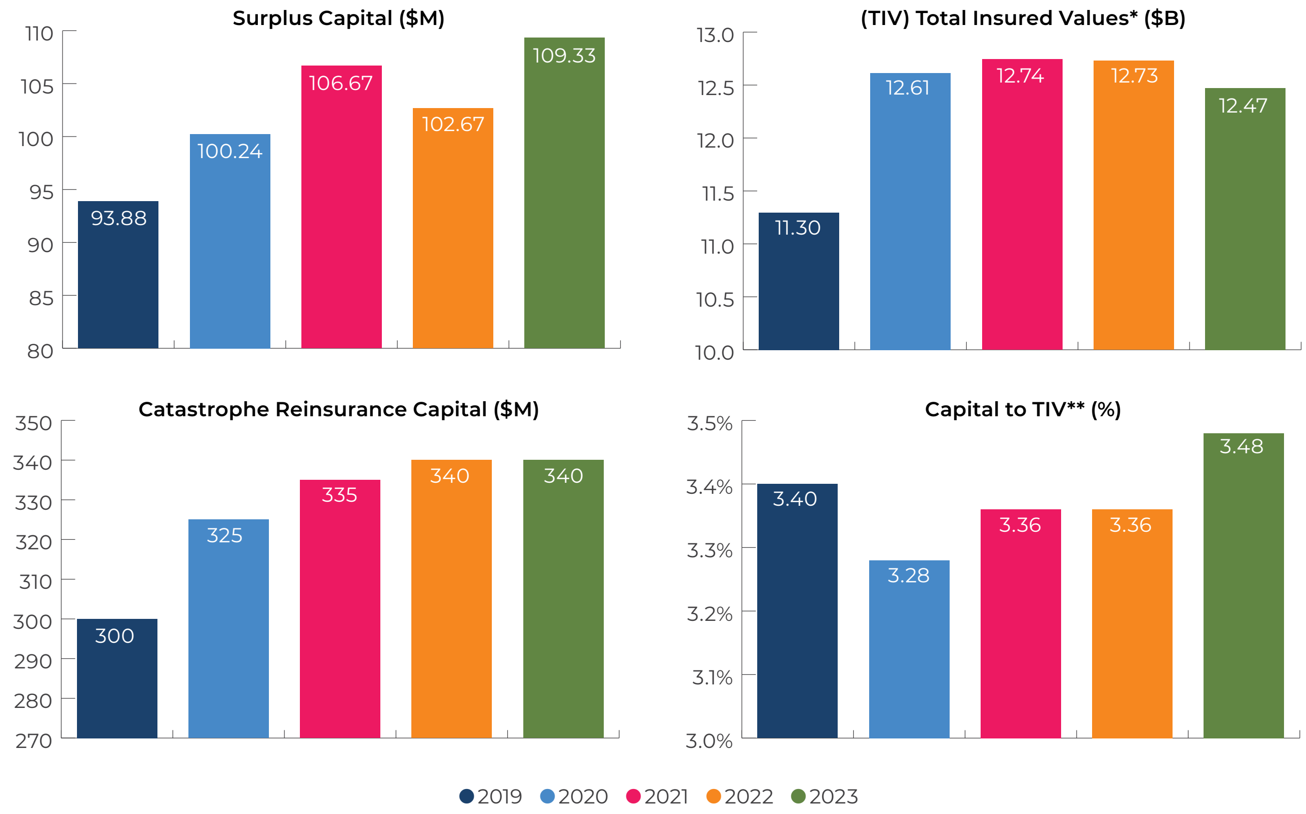
In summary, our financial results for 2023 are a success considering how badly the industry fared. **The Barnstable** is financially well positioned to handle the significant challenges ahead.

COMBINED BALANCE SHEET

	December 2023	December 2022
Assets		
Bonds, Amortized Cost	$77,080,121	$70,125,554
Common Stocks, Market Value	14,069,043	14,146,107
Real Estate, Net of Depreciation	2,292,881	2,373,967
Cash & Short Term Investments	12,891,527	16,827,468
Other Invested Assets	21,861,558	18,661,683
Premium Balances	4,527,991	4,440,641
Goodwill	5,377,334	6,183,933
Other Assets	4,155,560	4,016,417
Total Assets	**$142,256,015**	**$136,775,770**
Liabilities		
Loss Reserves	$3,762,101	$4,601,289
Loss Adjustment Expense Reserves	1,772,947	1,649,691
Unearned Premiums	16,339,244	16,867,081
Net Deferred Tax Liability	1,233,760	628,389
Notes Payable	5,131,135	5,934,387
Other Expenses	4,689,949	4,429,203
Total Liabilities	**32,929,136**	**34,110,040**
Surplus		
Catastrophe Reserve*	17,616,386	15,931,445
Unassigned Surplus	91,710,493	86,734,285
Total Surplus	**109,326,879**	**102,665,730**
Total Liabilities & Surplus	**$142,256,015**	**$136,775,770**

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

5 YEAR CAPITAL ADEQUACY



*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, 2024)

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John L. DeMello
Elizabeth A. Foley
Rosemary M. McAndrew
Christine M. Murphy
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Robert A. Talerman

OFFICERS (As of March 1, 2024)

John L. DeMello
President and Chief Executive Officer

Christine M. Murphy
Executive Vice President, CFO and Treasurer

Deborah A. Sutton
Vice President and Secretary

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