

THE BARNSTABLE

SINCE 1833

2019 Annual Report

*Barnstable County Mutual
Insurance Company*

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Insurance Company*



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THE BARNSTABLE STORY

The Barnstable traces its history all the way back to 1833. In that year, a group of Cape Codders, out of a shared love for their community, pooled their resources and formed *The Barnstable County Mutual Insurance Company*, more popularly known today as **The Barnstable**. Their primary goal was to protect their modest homes from the peril of fire. In addition, however, they shared another objective, one that lives on and still drives **The Barnstable**: providing unquestionably reliable, fair, and sustainable insurance for the Cape Cod community.

For **The Barnstable's** first century, conflagration—the possibility that every home in its portfolio could burn in the same fire—was its greatest risk. By establishing a 100-foot minimum distance between any two insured homes, the Company effectively mitigated this threat. As a result, **The Barnstable** did not have to hold much capital or money to support its business and could share 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**, as it was for the entire insurance industry. This powerful storm destroyed

scores of homes across the region, but because few homeowners had bought coverage for wind damage, most of the storm's devastation was not covered by insurance. After the '38 storm, the market demanded wind protection, and so the insurance industry introduced the current homeowner policy.

In 1956, **The Barnstable** adopted the homeowner policy, and in doing so 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. Because it needed to retain capital to fund payments in case of a severe windstorm, the Company could no longer pay policyholder dividends. And because the storm potential exceeded its surplus, **The Barnstable** also had to borrow additional capital in the form of catastrophe reinsurance.



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

THE BARNSTABLE TODAY

Today, the lifeblood of **The Barnstable's** mission is *capital adequacy*—access to enough money. The key to sustainability in the face of the next storm to rival or exceed the '38 Hurricane is maintaining financial stability. Carefully managing the size of our insured portfolio represents another key strategy in this regard.

Pressure from investors seeking high returns can drive public and private-equity-backed insurance companies to carry too little capital. But because **The Barnstable** is organized as a mutual insurance company, we don't face these kinds of demands. Instead, we can carry an appropriate level of capital to cover our catastrophic loss potential while remaining true to our mission: providing high-quality coastal home insurance over the long run.

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

done, we continue to approach policyholder claims as our product and our service. We address them with excellence, quickly and ethically. We live in this community and care about it, just like the band of Cape Codders whose love of this region led them 187 years ago to establish the company that ultimately became **The Barnstable**.

These core beliefs continue to set **The Barnstable** apart from our competition. We hope that you never have to face an insured loss, but if you ever do, **The Barnstable** is the company you want on your side. We appreciate the trust and support of our Independent Agents and Policyholders, and we look forward to continued success in 2020.

JOHN L. DEMELLO
President & CEO

FINANCIAL POSITION

On July 23, 2019, a string of tornadoes slammed the Cape's southern coast, resulting in 303 claims, totaling \$1.75 million. **The Barnstable** also experienced a spike in large fire losses, with nine claims amounting to \$1.8 million. The combined losses led to an overall break-even result for the year. Meanwhile, our common stock portfolio posted a strong 28.4% total return, resulting in a 5.4% growth in surplus, from \$89 million to \$93.9 million.

Despite a 2.7% decline in policies, our portfolio's total insured value (TIV) grew by 3.2% because of inflationary coverage adjustments and coverage increases on underinsured properties. To keep pace with TIV growth, we increased catastrophe coverage from \$296 million to \$300 million, which comprises 75% of overall capital.

The Barnstable successfully met these challenges. And we did it all while holding true to our mission and maintaining business practices that foster relevancy and sustainability.

Assets:	December-19	December-18
Bonds, amortized cost	\$59,340,104	\$55,639,567
Common stocks, market value	21,539,878	17,576,069
Real estate, net of depreciation	2,566,095	2,534,104
Cash & short-term investments	14,806,448	19,373,776
Other invested assets	12,600,387	9,703,185
Premium balances	4,029,059	3,848,595
Other assets	3,257,444	2,883,491
Total Assets	\$118,139,415	\$111,558,787

Liabilities:	December-19	December-18
Loss reserves	\$3,513,948	\$2,770,694
Loss adjustment expense reserves	1,364,783	1,126,113
Unearned premiums	15,379,504	15,221,782
Net deferred tax liability	991,244	406,620
Other expenses	3,016,123	2,947,220
Total Liabilities	\$24,265,602	\$22,472,429

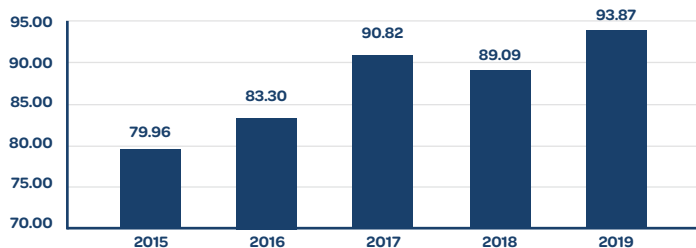
Surplus:	December-19	December-18
Catastrophe reserve*	\$9,628,060	\$9,295,725
Unassigned surplus	84,245,753	79,790,633
Total Surplus	\$93,873,813	\$89,086,358

Total Liabilities & Surplus	\$118,139,415	\$111,558,787
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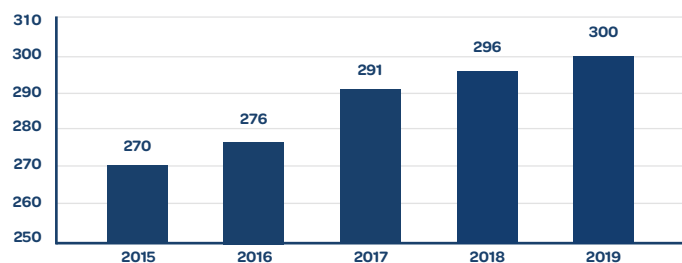
* Estimated pre-tax cost of a hurricane with a probability of occurrence every 100 years, net of catastrophe reinsurance recoveries.

CAPITAL ADEQUACY

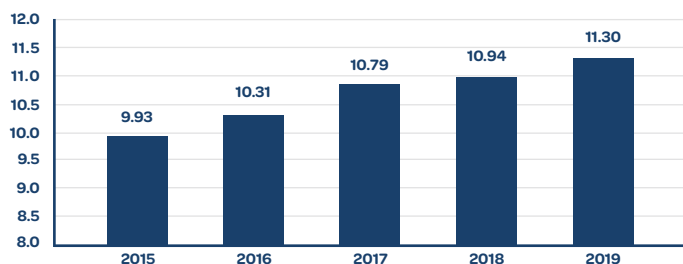
Surplus Capital (\$M)



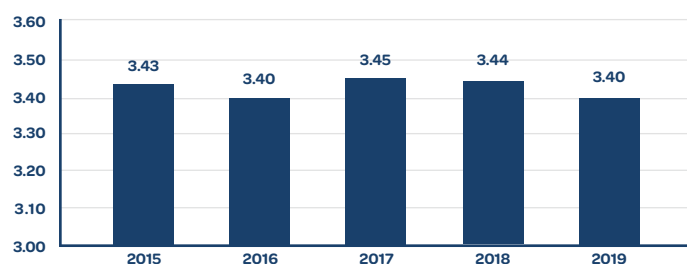
Catastrophe Reinsurance Capital (\$M)



(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 May 1, 2020)

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

OFFICERS

(As of May 1, 2020)

John L. DeMello
President and Chief Executive Officer

Christine M. Murphy
Executive Vice President and Chief Financial Officer

Deborah A. Sutton
Vice President and Secretary

Howard W. Perkins
Assistant Vice President and Treasurer

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

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