

THE BARNSTABLE

SINCE 1833

2020 Annual Report

*Barnstable County Mutual
Insurance Company*

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Insurance Company*



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THE BARNSTABLE STORY

The history of what is today popularly known as **The Barnstable** began in 1833. That's when a group of Cape Codders, out of a shared love for their community, pooled their resources and formed *The Barnstable County Mutual Insurance Company*. Protecting their modest homes from the peril of fire was their primary goal. But they shared an additional objective that lives on and still drives **The Barnstable**: to provide unquestionably reliable, fair, and sustainable insurance for the Cape Cod community.

The risk of conflagration, with the possibility that every home in **The Barnstable's** portfolio could burn in the same fire, was the greatest risk faced during its first century. The Company mitigated this threat by establishing a 100-foot minimum distance between any two insured homes. Because of this strategy, **The Barnstable** did not have to hold much capital or money to support its business and could instead share profits with policyholders in the form of dividends. In fact, the Company managed its risks so effectively that by 1845, it was returning over 100 percent of annual premiums to policyholders.

A turning point—a true watershed moment—for **The Barnstable** and the rest of the insurance industry was the Great New England Hurricane of 1938. This catastrophic storm obliterated 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. Following the '38 storm, the market demanded wind protection, and so the insurance industry introduced the current homeowner policy.

When **The Barnstable** adopted the homeowner policy in 1956, it immediately faced 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. In addition, the Company could no longer pay policyholder dividends because 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.



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

THE BARNSTABLE TODAY

Today, access to sufficient money—*capital adequacy*—is the lifeblood of **The Barnstable's** mission. With the constant threat of a cataclysm rivaling or exceeding the destructive force of the '38 Hurricane, *financial stability* and *sustainability* remain our watchwords. Careful management of the size and quality of our insured portfolio represents a key strategy to fulfilling these objectives.

With public and private-equity-backed insurance companies, pressure from investors seeking high returns can lead these firms to carry too little capital. But as a mutual insurance company, **The Barnstable** operates differently. We carry the appropriate level of capital to cover our catastrophic loss potential without compromising our mission: providing high-quality coastal home insurance for the long term.

As the only insurance company born on Cape Cod, **The Barnstable** has been reliably serving the Cape and its coastal neighbors since 1833. Just like that band of Cape Codders who started it all 188 years ago, we live in this community and care about it.

And in 2020, COVID-19 certainly challenged us to demonstrate this commitment. A year ago, the safety measures that Massachusetts enacted required us to limit

access to our Yarmouth Port office. We may have had to shut the doors for a while, but we never shut down. Instead, we adjusted.

Dealing with the pandemic actually made **The Barnstable** a stronger, more resilient organization. Thanks to earlier investments in technology and disaster planning, our team was easily able to embrace telecommuting, shifting to home offices. We relied on technology to stay in touch with each other and the world around us. In short, 2020 was a year of accelerated learning and adapting. Through it all, we have held to our core beliefs and continued approaching claims as our product and our service, addressing them quickly and ethically.

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 relationship we have with our policyholders and Independent Agents, and we look forward to meeting your needs throughout 2021.

JOHN L. DEMELLO
President & CEO

FINANCIAL POSITION

Policyholder surplus grew 6.8 percent in 2020, from \$93.9 to \$100.2 million, driven by strong public-equity returns and underwriting profits. The total return on **The Barnstable's** equity portfolio was 19 percent, and the underwriting profit margin was 17 percent, reflecting a very mild winter.

The total insured value (TIV) of the Company's portfolio grew 12 percent in 2020, from \$11.3 billion to \$12.6 billion, primarily driven by the assumption of an affiliate's in-force homeowner policies representing \$820 million in TIV.

Catastrophe reinsurance coverage limits were increased in 2020, from \$300 to \$325 million, to remain in sync with the growth in TIV of the portfolio. We strive to keep overall capital, comprised of policyholder surplus and catastrophe reinsurance, pegged at 3 to 5 percent of TIV, based on probabilistic and deterministic studies.

In 2020, we successfully met the challenges of COVID-19. In short, dealing with the pandemic will make Barnstable a more resilient organization. It is also a powerful reminder of the risks we face in our business—that we must expect the unexpected and be prepared for the worst.

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

Assets:	December-20	December-19
Bonds, amortized cost	\$60,407,338	\$59,340,104
Common stocks, market value	22,924,684	21,539,878
Real estate, net of depreciation	2,504,031	2,566,095
Cash & short-term investments	17,150,138	14,806,448
Other invested assets	16,410,412	12,600,387
Premium balances	4,620,438	4,029,059
Goodwill	7,797,133	–
Other assets	3,001,641	3,257,444
Total Assets:	\$134,815,815	\$118,139,415

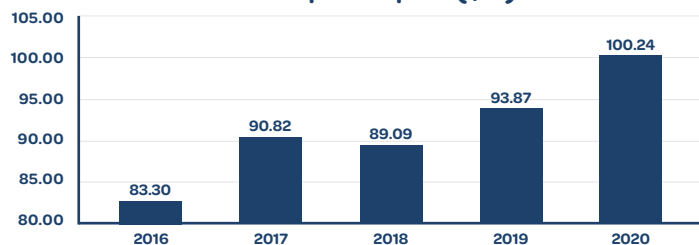
Liabilities:	December-20	December-19
Loss reserves	\$3,119,164	\$3,513,948
Loss adjustment expense reserves	1,504,213	1,364,783
Unearned premiums	16,434,668	15,379,504
Net deferred tax liability	1,342,398	991,244
Notes payable	7,499,122	–
Other expenses	4,677,649	3,016,123
Total Liabilities:	\$34,577,214	\$24,265,602

Surplus:	December-20	December-19
Catastrophe reserve*	\$12,343,579	\$9,628,060
Unassigned surplus	87,895,022	84,245,753
Total Surplus:	\$100,238,601	\$93,873,813

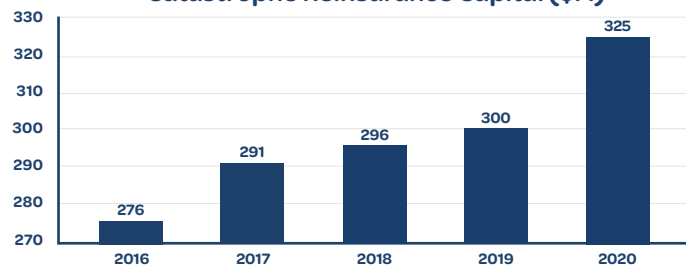
Total Liabilities & Surplus: \$134,815,815 \$118,139,415

CAPITAL ADEQUACY

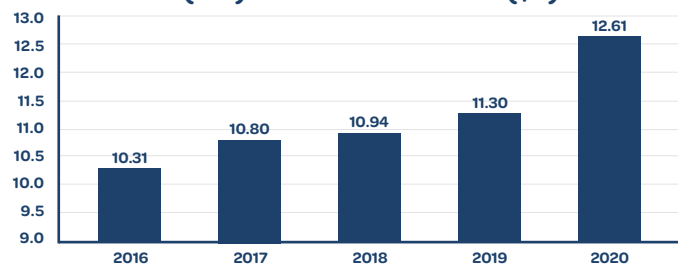
Surplus Capital (\$M)



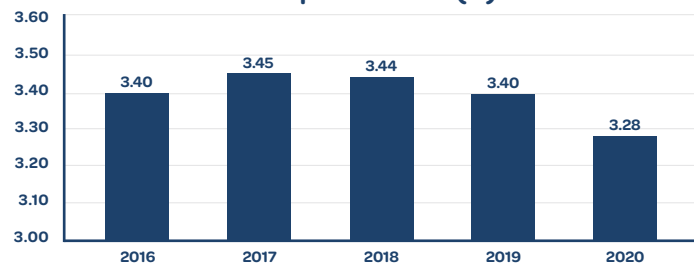
Catastrophe Reinsurance Capital (\$M)



(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, 2021)

Shawn J. Almeida
Micheal J. Ayer
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
Robert A. Talerman

OFFICERS

(As of March 1, 2021)

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.