

**EXAMINATION REPORT**  
**OF THE**  
**FRANKLIN MUTUAL INSURANCE COMPANY**  
**BRANCHVILLE, NEW JERSEY**

**AS OF**

**DECEMBER 31, 2020**

**NAIC COMPANY CODE 16454**

**NAIC GROUP CODE 0762**

**FILED**

October 24, 2022

**COMMISSIONER**

**NEW JERSEY DEPARTMENT**

**OF**

**BANKING AND INSURANCE**

**TABLE OF CONTENTS**

SCOPE OF THE EXAMINATION ..... 2

COMPLIANCE WITH PRIOR EXAMINATION REPORT RECOMMENDATIONS ..... 2

HISTORY AND KIND OF BUSINESS ..... 2

TERRITORY AND PLAN OF OPERATION ..... 3

ADVERTISING AND SALES MATERIAL ..... 4

REINSURANCE ..... 4

HOLDING COMPANY SYSTEM ..... 5

INTERCOMPANY AGREEMENTS ..... 6

MANAGEMENT AND CONTROL ..... 6

    Membership ..... 6

    Directors ..... 6

    Officers ..... 8

    Corporate Records ..... 9

    Policy on Conflicts of Interest ..... 9

CONTINUITY OF OPERATIONS ..... 9

FIDELITY BOND AND OTHER INSURANCE COVERAGES ..... 9

EMPLOYEE WELFARE AND PENSION PLAN ..... 10

ACCOUNTS AND RECORDS ..... 10

TREATMENT OF POLICYHOLDERS ..... 10

FINANCIAL STATEMENTS ..... 11

    Statement of Assets, Liabilities, Surplus and Other Funds at December 31, 2020 – Exhibit A ..... 12

    Summary of Revenue and Expenses for the Five-Year Period Ending December 31, 2020 – Exhibit B ..... 13

    Capital and Surplus Account for the Five-Year Period Ending December 31, 2020 – Exhibit C ..... 14

NOTES TO THE FINANCIAL STATEMENTS ..... 15

SUBSEQUENT EVENTS ..... 15

SUMMARY OF EXAMINATION RECOMMENDATIONS ..... 15

CONCLUSION ..... 16

AFFIDAVIT ..... 17



**State of New Jersey**  
DEPARTMENT OF BANKING AND INSURANCE  
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PHIL MURPHY  
*Governor*

SHEILA OLIVER  
*Lt. Governor*

MARLENE CARIDE  
*Commissioner*

September 2, 2022

Honorable Marlene Caride  
Commissioner of Banking and Insurance  
State of New Jersey  
20 West State Street  
Trenton, New Jersey 08625

Commissioner:

A financial examination has been made of the condition and affairs of the:

**FRANKLIN MUTUAL INSURANCE COMPANY  
5 BROAD STREET  
BRANCHVILLE, NEW JERSEY 07826  
N.A.I.C. GROUP CODE 0762  
N.A.I.C. COMPANY CODE 16454  
EXAMINATION WARRANT P&C-4**

a property and liability insurance organization authorized to transact business in the State of New Jersey, and hereinafter referred to in this report as "FMIC," "Franklin Mutual," or "Company."

## **SCOPE OF THE EXAMINATION**

This financial condition examination was called by the Commissioner of Banking and Insurance of the State of New Jersey pursuant to the authority granted by N.J.S.A. 17:23-22.

The examination addresses the period from December 31, 2015, the date of the previous financial condition examination, to December 31, 2020. During the five-year exam period, the Company's assets increased \$449,663,757 from \$824,365,803 to \$1,274,029,560; liabilities increased \$30,097,347 from \$280,869,120 to \$310,966,467 and total surplus increased \$419,566,410 from \$543,496,683 to \$963,063,093.

The examination was conducted in accordance with the 2020 NAIC *Financial Condition Examiners Handbook*. The Handbook requires that we plan and perform the examination to evaluate the financial condition and identify 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. An examination also includes assessing the principles and significant estimates made by management, as well as evaluating the overall financial statement presentation, management's compliance with Statutory Accounting Principles and annual statement instructions when applicable to domestic state regulations. All accounts and activities of the Company were considered in accordance with the risk-focused examination process as defined in the 2020 NAIC *Financial Condition Examiners Handbook*.

Additional areas reviewed were in part as follows:

- History
- Fidelity Bond and Other Insurance
- Pension, Stock Ownership and Insurance Plans
- Statutory Deposits
- Insurance Products and Related Services
- Reinsurance
- Accounts and Records

## **COMPLIANCE WITH PRIOR EXAMINATION REPORT RECOMMENDATIONS**

In the prior examination report dated December 31, 2015, the following recommendation was made:

It was recommended that the Company complete the testing of the various sections of the Disaster Recovery Plan and schedule and execute regular, periodic testing of this plan, in addition to completing and maintaining documentation of the tests.

It was determined that the Company complied with this recommendation by establishing a schedule and executing regular, periodic testing of the various sections of their Disaster Recovery Plan.

## **HISTORY AND KIND OF BUSINESS**

The Company was incorporated on May 28, 1879, as Franklin Farmers Mutual Fire Assurance Association under the laws of the State of New Jersey. The Company commenced business on June 2, 1879.

On August 12, 1937, an amended Charter was filed with the Attorney General of the State of New Jersey whereby, the name of the Company was changed to Franklin Mutual Insurance Company, the name that it presently holds.

The Company is a member of an insurance company holding system. It is the ultimate parent of FMI Inc., which owns 100% of the following two insurance companies:

FMI Insurance Company  
Fidelity Mohawk Insurance Company

Together, these companies will be referred to hereinafter as the Franklin Mutual Insurance Group ("FMIG").

On May 18, 1984, the Company's Certificate of Authority was amended to authorize the Company to transact the following lines of business permitted under N.J.S.A. 17:17-1. "a", "b", "e", "f", "g", "j", "k", "l", "o-1" and "o-3".

Since the Company is a mutual company its capital structure only contained the item Unassigned Funds (surplus) with a balance at December 31, 2020 in the amount of \$963,063,093.

The Company's statutory home office is located at 5 Broad Street, Branchville, New Jersey 07826-0400.

The Company is designated as the registered agent upon whom process can be served.

### **TERRITORY AND PLAN OF OPERATION**

As of December 31, 2020, the Company was licensed to transact the business of insurance only in the State of New Jersey. All business was written through agreements with independent agents. Gross premiums written for the period of the examination were as follows:

<u>Year</u>	<u>Gross Premiums Written</u>
2016	\$152,036,071
2017	\$150,833,345
2018	\$150,826,639
2019	\$151,325,245
2020	\$150,086,624

The Company has a downstream holding company, FMI Inc., which owns two insurance companies, FMI Insurance Company ("FMI Insurance") and Fidelity Mohawk Insurance Company ("Fidelity Mohawk"). These two insurance entities cede 100% of their gross premiums written to the Company. These assumed premiums from affiliates amounted to \$107,620,491 in 2020 and \$108,773,706 in 2019 as reported on the books of the Company.

All personnel, material, facilities and services necessary for the subsidiaries to transact the business of insurance in the State of New Jersey are provided to the subsidiaries by the Company under the terms of an administrative service agreement discussed in this report under the heading "Intercompany Agreements."

## ADVERTISING AND SALES MATERIAL

A review and sampling of advertising materials submitted by the Company determined Franklin Mutual to be in compliance with N.J.S.A. 17:18-10, which requires a company that is advertising its assets to also advertise liabilities in an equally conspicuous manner.

## REINSURANCE

Franklin Mutual assumes reinsurance on a 100% quota share basis from its indirect subsidiaries, FMI Insurance and Fidelity Mohawk. Additionally, Franklin assumes reinsurance from its participation in the New Jersey Workers' Compensation Insurance Plan and New Jersey Insurance Underwriting Association (FAIR Plan) on a pro rata basis. Amounts assumed through the participating plans in 2020 were approximately \$911,000.

Franklin cedes reinsurance to unaffiliated insurers to limit its exposure to loss on individual claims and from the effects of catastrophes. The Company has a reinsurance intermediary contract with Guy Carpenter & Company, LLC, which authorizes it to act as a reinsurance intermediary at request of Franklin Mutual. The reinsurance in place at December 31, 2020 was as follows:

### Property Coverage

The Company purchases obligatory first surplus reinsurance protection covering property risks above the Company's \$1,100,000 net retained liability, subject to a maximum cession limit of \$13,900,000 on any one risk. The coverage is provided on a surplus share basis with the reinsurers' liability being first dollar coverage which is pro-rata based on the policy limit.

The Company purchases property facultative pro rata reinsurance protection covering property risks up to a maximum cession of \$5,000,000, subject to minimum net retention of \$25,000, of which the first \$2,500,000 is automatic and the next \$2,500,000 requires special acceptance.

### Umbrella Coverage

The Company purchases umbrella facultative quota share reinsurance protection covering personal, farm and commercial umbrella liability risks, ceding 50% up to \$1,000,000 and 100% of \$4,000,000 in excess of \$1,000,000 per each loss occurrence, each policy.

The Company purchases umbrella excess of loss facultative reinsurance protection covering commercial umbrella liability for 100% of \$5,000,000 in excess \$5,000,000, per each loss occurrence, each policy.

### Casualty Coverage

The Company purchases reinsurance protection on an excess of loss basis for casualty business covering bodily injury, property damage, medical payments and personal injury on all lines except umbrella as follows:

1 <sup>st</sup> Casualty Excess of Loss	\$1,000,000 excess \$1,000,000
2 <sup>nd</sup> Casualty Excess of Loss	\$3,000,000 excess \$2,000,000

### Workers' Compensation Coverage

The Company purchases reinsurance protection on an excess of loss basis for workers' compensation business as follows:

1 <sup>st</sup> Workers' Compensation Excess of Loss	\$9,000,000 excess \$1,000,000
2 <sup>nd</sup> Workers' Compensation Excess of Loss	\$10,000,000 excess \$10,000,000

#### Catastrophe Coverage

The Company purchases catastrophe reinsurance protection for property business, excluding burglary, robbery, and theft as follows:

1 <sup>st</sup> Catastrophe Excess of Loss	\$30,000,000 excess \$30,000,000
2 <sup>nd</sup> Catastrophe Excess of Loss	\$70,000,000 excess \$60,000,000
3 <sup>rd</sup> Catastrophe Excess of Loss	\$135,000,000 excess \$130,000,000
4 <sup>th</sup> Catastrophe Excess of Loss	\$25,000,000 excess \$265,000,000
5 <sup>th</sup> Catastrophe Excess of Loss	\$25,000,000 excess \$290,000,000
6 <sup>th</sup> Catastrophe Excess of Loss	\$10,000,000 excess \$315,000,000

#### Equipment Breakdown Coverage

The Company purchases quota share reinsurance protection covering boiler and machinery and mechanical breakdown on a 100% basis limited to \$15,000,000 on any one risk.

#### Employment Practices Liability Coverage

The Company purchases quota share reinsurance protection covering employment practices liability on a 100% basis limited to \$250,000 on any one risk.

#### Cyber Liability Coverage

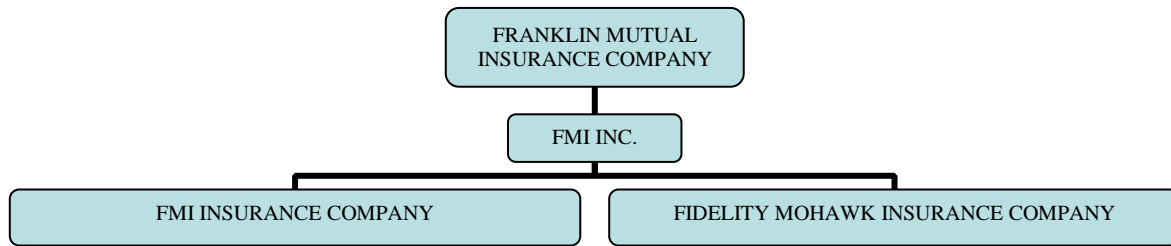
The Company purchases quota share reinsurance protection covering cyber liability endorsements on businessowners and house of worship business on a 100% basis limited to \$1,000,000 on any one risk.

### **HOLDING COMPANY SYSTEM**

As of December 31, 2020, the Company is a member of a holding company system as defined by N.J.S.A. 17:27A-1. The Company owns 100% of the outstanding capital stock of FMI Inc., which owns all of the outstanding capital stock of FMI Insurance and Fidelity Mohawk.

A review of the Company's holding company registration statements and amendments thereto indicated that the Company is in compliance with N.J.S.A. 17:27A-3 sections a-j, requiring registration of those insurers who qualify as determined by N.J.S.A. 17:A-1.

A holding company system organizational chart as of December 31, 2020 follows:



## **INTERCOMPANY AGREEMENTS**

### **Consolidated Tax Allocation Agreement**

The Company is party to a Consolidated Tax Allocation Agreement signed and dated January 1, 2010. This agreement was made between the Company and all of its subsidiaries.

The provisions of this agreement call for the calculation of the taxable income and tax liability for each subsidiary and consolidation into the final tax return. If a company experiences a loss, the tax benefit of that loss is required by the agreement to be allocated to the company that experienced the loss, to the extent that the net income on the consolidated return can be reduced by that loss. All applicable rules of the Federal Income Tax laws are required to be applied to each subsidiary in preparing their individual returns.

The specific settlement terms call for each party to settle any balances due within ninety days from the close of the respective calendar year. Settlement shall be made through the Company to the Internal Revenue Service.

### **Expense Allocation Agreements**

The Company has entered into Administrative Service Agreements with each of its subsidiaries effective January 1, 2003. Pursuant to those agreements, the Company provides virtually all of the services and operating requirements for its subsidiaries. Each company shall pay for its own operating costs and expenses. Shared expenses shall be apportioned in accordance with **SSAP No. 70** or any amendment, interpretation, or replacement thereof.

## **MANAGEMENT AND CONTROL**

### **Membership**

All persons who insure in or with the Company shall be considered members of the Company. Annual meetings of the membership shall be held on the third Wednesday of October of each year or on another date as designated by resolution of the Board of Directors (hereafter “the Board”). The meeting shall be held at such place as determined by the Board. Each member who has been insured with the corporation for at least one year shall be entitled to vote either in person or by proxy.

### **Directors**

The number of directors shall be at least five. Each director shall, subject to law and the by-laws, hold office for the term for which elected and until his or her successor shall be elected and shall qualify. Each person nominated to be a director by the Board, or a committee thereof, shall be a member of the corporation, and each person recommended to be a director by the members of the corporation shall be a member of the corporation in good



standing for at least one-year last past. Any director selected for the first time after January 1, 2000 may not be an insurance producer or otherwise be a member or employee of an insurance agency or brokerage firm, unless such person is (1) an officer or employee of the corporation or (2) an officer or administrator of an insurance agency or brokerage firm which is a wholly-owned subsidiary of the corporation. At least one-third of the directors of the corporation shall be persons who are not officers or employees of the corporation or of any entity that now or hereafter controls, is controlled by, or is under common control with, the corporation, and who are not beneficial owners of a controlling interest in the voting rights of the corporation or of any entity that now or hereafter controls, is controlled by, or is under common control with, the corporation (an "Outside Director"). At least one Outside Director shall be included in any quorum for the transaction of business at any meeting of the Board.

The Board shall exercise all the powers of the corporation except such as are conferred upon or reserved to the members by law, by the Certificate of Incorporation or by the by-laws.

The following is a list of the Board members as of December 31, 2020:

<u>Name and Address</u>	<u>Principal Occupation</u>
George Herbert Guphill, Jr. Hampton, New Hampshire	Chairman – Retired employee of Franklin Mutual
James Penney Ayers Branchville, New Jersey	Retired – Former President of Franklin Mutual
Philip David Deacon Sparta, New Jersey	President – Deacon Homes, Inc.
Brian Patrick Lytwynec Sparta, New Jersey	President – Franklin Mutual
Robin Elizabeth Suydam Somerset, New Jersey	Retired – Independent Insurance Agent

The by-laws stipulate that the Board shall meet at least once every quarter, or as nearly thereto as practical, at a place and time of their choosing. All Board members were in attendance for all Board meetings during the examination period, and a review of the corporate board minutes indicated that the Board approved all major corporate actions.

The by-laws authorize the Board to establish one or more committees, each to consist of two or more directors of the corporation. Not less than one third of the members of each such committee shall consist of Outside Directors. At least one Outside Director shall be included in any quorum of each such committee to allow it to conduct business. The Board shall establish one or more committees which are comprised solely of Outside Directors. At December 31, 2020 the Board had in place an Outside Directors Committee, which largely functions as an Audit Committee that was formed to comply with N.J.S.A. 17:27A-4d(4), and a Finance and Investment Committee. The Finance and Investment Committee is to consist of at least two members, at least fifty percent of whom shall be directors.

The members of the Outside Directors Committee elected and serving at December 31, 2020 were as follows:

1. Robin E. Suydam – Chair

2. James P. Ayers
3. Philip D. Deacon

Reports of the Outside Directors Committee are incorporated into the corporate minutes with its actions having received approval from the Board.

The members of the Finance and Investment Committee elected and serving at December 31, 2020 were as follows:

1. Keith E. Ahart
2. James P. Ayers
3. Mark R. Cummins
4. George H. Guphill, Jr.
5. Brian P. Lytwynec
6. Vincent G. Noggle

The Finance and Investment Committee shall exercise such power and authority as delegated to its from time to time by the Board to monitor all investment activity of the Company and take all necessary actions to buy, sell and exchange investments on behalf of the Company, but the committee shall not have or exercise any of the authority of the Board. Review of the corporate minutes indicated that all actions of the committee are reported to the Board for approval at its next meeting following such committee meeting.

### **Officers**

The by-laws state the principal officers of the corporation shall be a President, one or more Vice Presidents, a Secretary and a Treasurer, all of whom shall be elected by the Board. Officers of the corporation shall include the principal officers as well as a Chairman of the Board, if one be elected, and such Assistant Vice Presidents, Assistant Secretaries and Assistant Treasurers as the Board may deem advisable. The duties of these officers are as follows:

**Chairman of the Board** - The Chairman of the Board, if one be elected, shall preside at all meetings of the Board and perform such other duties and have such other powers as may be prescribed or assigned to him or her from time to time by the Board or the by-laws. This position may also be designated as Chair or Chairperson.

**President** - The President shall be the chief executive officer of the corporation, shall exercise all the powers and perform all the duties usual to such office and shall preside at all meetings of the members if present thereat and, in the absence or non-election of the Chairman of the Board, at all meetings of the Board. Subject to the Board, the President shall have general supervision of the business of the corporation and shall also perform such other duties and have such other powers as may be prescribed or assigned from time to time by the Board or the by-laws.

**Vice President** - The Vice President or, if more than one, the Vice President in the order established by the Board shall, in the absence or incapacity of the President, exercise all the powers and perform the duties of the President. The Vice Presidents shall also perform such other duties and have such other powers as may be prescribed or assigned to them, respectively, from time to time by the Board or the by-laws. Any Vice President may, in the discretion of the Board, be designated as "executive", "senior" or by any succeeding ordinal number or by departmental or functional classification.

**Treasurer** - The Treasurer shall exercise all the powers and perform all the duties usual to that office, including having the care and custody of the funds and securities of the corporation and depositing the same with such

depositories as the Board may designate. The Treasurer shall also perform such other duties and have such other powers as may be prescribed or assigned from time to time by the Board or the by-laws.

Secretary - The Secretary shall exercise all the powers and perform all the duties usual to such office including keeping the minutes of the meetings of the Board and of the members, having custody of the seal of the corporation and affixing the seal to documents when authorized to do so. The Secretary shall also perform such other duties and have such other powers as may be prescribed or assigned from time to time by the Board or the by-laws.

As of December 31, 2020, the principal officers of the corporation were as follows:

<u>Name</u>	<u>Office</u>
Brian P. Lytwynec	President and Chief Executive Officer
George H. Guptill, Jr.	Chairman and Secretary
Vincent G. Noggle	EVP, Finance and Enterprise Risk, Chief Financial Officer and Treasurer
Sarah F. Shave	Senior VP, Human Resources and Organizational Effectiveness
Jonathan J. Zabek	Senior VP, Data Science and Marketing and Chief Data Scientist
William G. Hirschfeld	Vice President, Underwriting
Jessica Jansyn	Vice President, General Counsel and Chief Compliance Officer
Dale J. Martin	Vice President, Claims
Stephen Romanow	Vice President and Chief Information Officer

### **Corporate Records**

A review of the minutes of the Company's board and committee meetings indicated that transactions and events were adequately authorized and supported, in accordance with the provisions of the Company's by-laws. The Board's review and approval of the previous examination report, key investment transactions, and other strategically relevant and important matters were duly noted and documented in its minutes.

Corporate records revealed that the Company amended its by-laws during the period covered by examination but did not file the amended by-laws with the New Jersey Department of Banking and Insurance. It is therefore recommended that the Company file its amended by-laws.

### **Policy on Conflicts of Interest**

The Company has established procedures for the reporting of conflicts of interest by officers and key employees. Directors and officers are required to complete Conflict of Interest Statements on an annual basis. Additionally, the directors and officers stipulate that they will notify management immediately if a potential conflict arises in the interim. No exceptions were noted.

## **CONTINUITY OF OPERATIONS**

The Company's disaster recovery plan was reviewed and found to be adequate. The Company's by-laws provide for the election or appointment of directors, committee members, or officers to fill any vacancies caused by death, resignation, disqualification, or removal by the Board.

## **FIDELITY BOND AND OTHER INSURANCE COVERAGES**

At December 31, 2020, the Company maintained an insurance program designed to protect its assets and employees arising out of property and liability risks. Coverages include but are not limited to combination

dwelling, commercial automobile, commercial crime fidelity, commercial general liability, commercial inland marine, commercial property, commercial umbrella liability, and employers' liability.

Additionally, the Company maintains a fidelity bond in the amount of \$5,000,000. All members of FMIG are named insureds under the fidelity bond issued by the Travelers Casualty and Surety Company of America. Based on the NAIC exposure index guidelines for minimum amounts of fidelity insurance, the amount of coverage maintained by the Company is more than adequate.

### **EMPLOYEE WELFARE AND PENSION PLAN**

The Company sponsors a pension plan covering substantially all of its employees. The benefits are based on years of service and the employee's compensation.

Additionally, the Company sponsors a profit sharing plan covering substantially all of its employees. The Company is required each plan year to make a contribution to all eligible employees equal to five percent of the employee's compensation.

### **ACCOUNTS AND RECORDS**

The Company's general ledger system is a virtual server based package from FIS. This off the shelf package is licensed for the general ledger, accounts payables and report generation modules. The Company uses the report generator along with excel workbooks to print drafts of the primary pages of the financial statements. Internal control reviews on the general ledger system are done on a regular basis. The Company has segregation of duties controls on the General Ledger Software. The Company uses a "Positive Pay" system. Bank reconciliations are done independently.

The Company's Premium and Loss processing system is a customized version of Insurance Data Processing's Vision – MIS package. Policy information, premium statistical, premium billing, claims information, claims payments, claims reserving, and reinsurance accounting are provided with this package. All underwriting, claims and accounts payable files are stored in the ImageRight system from Vertafore Inc. The tasks related to images are moved through the appropriate processes with workflows programmed by Vertafore employees.

The Company's Investment System is iWorks Investments from SunGard Insurance Systems. Investments and derivatives are accounted for in the system with interfaces to the General Ledger and Schedule D reporting for the annual statement filing software.

Beginning in 2020, the Guidewire InsuranceSuite was implemented. New policies and renewal will be added to Guidewire and the legacy systems will be runoff, which should be completed in 2026.

### **TREATMENT OF POLICYHOLDERS**

Examination review determined that the Company, and its insurance company subsidiaries, are in compliance with N.J.S.A. 17:29B-4(10), which requires an insurer to maintain a complete record of all consumer complaints since its previous examination.

The review determined that individual consumer complaints are addressed by the Underwriting and Claims departments and documented in the complaint log. No unusual circumstances were noted.

## **FINANCIAL STATEMENTS**

Financial statements are presented in the following three pages as listed below:

- Exhibit – A     Statement of Assets, Liabilities, Surplus and Other Funds  
                         at December 31, 2020
  
- Exhibit – B     Summary of Revenue and Expenses  
                         for the Five-Year Period Ending December 31, 2020
  
- Exhibit – C     Capital and Surplus Account  
                         for the Five-Year Period Ending December 31, 2020

**Statement of Assets, Liabilities, Surplus and Other Funds at December 31, 2020 – Exhibit A**

	Current Examination at 12/31/2020	Balance per Company at 12/31/2020	Examination Change	Note Number
<u>Assets</u>				
Bonds	\$31,033,867	\$31,033,867	\$0	1
Common stocks	975,418,897	975,418,897	0	
Properties occupied by the company	6,151,321	6,151,321	0	
Properties held for the production of income	577,253	577,253	0	
Cash, cash equivalents and short-term investments	229,222,955	229,222,955	0	
Investment income due and accrued	1,272,320	1,272,320	0	
Uncollected premiums and agents' balances in the course of collection	834,857	834,857	0	
Deferred premiums and agents' balances	18,757,226	18,757,226	0	
Amounts recoverable from reinsurers	4,907,528	4,907,528	0	
Funds held by or deposited with reinsured companies	3,070,280	3,070,280	0	
Current federal and foreign income tax recoverable	2,268,041	2,268,041	0	
Electronic data processing equipment and software	380,000	380,000	0	
Receivables from parent, subsidiaries and affiliates	85,393	85,393	0	
Aggregate write-ins for other than invested assets	49,622	49,622	0	
<b>Total Admitted Assets</b>	<b>\$1,274,029,560</b>	<b>\$1,274,029,560</b>	<b>\$0</b>	
<u>Liabilities</u>				
Losses	\$95,693,206	\$95,693,206	\$0	2
Reinsurance payable on paid losses and loss adjustment expenses	74,218	74,218	0	
Loss adjustment expenses	16,113,494	16,113,494	0	2
Commissions payable, contingent commissions and other similar charges	5,357,358	5,357,358	0	
Other expenses	3,005,797	3,005,797	0	
Taxes, licenses and fees	320,349	320,349	0	
Net deferred tax liability	112,200,514	112,200,514	0	
Unearned premiums	66,123,290	66,123,290	0	
Advance premium	2,162,381	2,162,381	0	
Dividends declared and unpaid: Policyholders	568,754	568,754	0	
Ceded reinsurance premiums payable	7,988,640	7,988,640	0	
Amounts withheld or retained by company for account of others	1,049,516	1,049,516	0	
Remittances and items not allocated	544	544	0	
Provision for reinsurance	101,000	101,000	0	
Aggregate write-ins for liabilities	207,406	207,406	0	
<b>Total Liabilities</b>	<b>\$310,966,467</b>	<b>\$310,966,467</b>	<b>\$0</b>	
<u>Surplus and Other Funds</u>				
Unassigned funds (surplus)	\$963,063,093	\$963,063,093	\$0	3
Surplus as regards policyholders	\$963,063,093	\$963,063,093	\$0	
<b>Total Liabilities, Surplus and Other Funds</b>	<b>\$1,274,029,560</b>	<b>\$1,274,029,560</b>	<b>\$0</b>	

**Summary of Revenue and Expenses for the Five-Year Period Ending December 31, 2020 – Exhibit B**

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
<u>Underwriting Income</u>					
Premiums earned	\$117,629,503	\$118,918,105	\$121,269,596	\$119,525,458	\$114,072,999
<u>Deductions</u>					
Losses incurred	\$77,466,926	\$55,955,114	\$65,114,959	\$48,516,682	\$48,702,982
Loss adjustment expenses incurred	14,138,602	11,252,252	12,617,320	10,951,914	11,268,264
Other underwriting expenses incurred	52,671,538	51,052,761	50,266,970	39,854,325	33,963,753
Total underwriting deductions	\$144,277,066	\$118,260,127	\$127,999,249	\$99,322,921	\$93,934,999
<b>Net underwriting gain or (loss)</b>	(\$26,647,563)	\$657,978	(\$6,729,653)	\$20,202,537	\$20,138,000
<u>Investment Income</u>					
Net investment income earned	\$19,236,351	\$22,809,943	\$20,574,207	\$16,502,224	\$15,234,186
Net realized capital gains or (losses)	8,084,362	4,888,538	3,251,168	10,644,631	6,416,059
Net investment gain (loss)	\$27,320,713	\$27,698,481	\$23,825,375	\$27,146,855	\$21,650,245
<u>Other Income</u>					
Net gain (loss) from agents' or premium balances charged off	(\$162,943)	(\$75,108)	(\$73,923)	(\$67,126)	(\$121,453)
Finance and service charges not included in premiums	605,617	661,663	714,285	701,942	746,324
Aggregate write-ins for miscellaneous income	3,786	28,046	(3,666)	(1,890)	(21,600)
Total other income	\$446,460	\$614,601	\$636,696	\$632,926	\$603,271
Net income before dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes	\$1,119,610	\$28,971,060	\$17,732,418	\$47,982,318	\$42,391,516
Dividends to policyholders	1,022,357	654,490	653,683	683,671	698,353
Net income, after dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes	\$97,253	\$28,316,570	\$17,078,735	\$47,298,647	\$41,693,163
Federal and foreign income taxes incurred	(2,616,753)	2,935,058	2,239,690	9,381,437	8,771,912
<b>Net Income</b>	<b>\$2,714,006</b>	<b>\$25,381,512</b>	<b>\$14,839,045</b>	<b>\$37,917,210</b>	<b>\$32,921,251</b>

**Capital and Surplus Account for the Five-Year Period Ending December 31, 2020 – Exhibit C**

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Surplus as regards policyholders December 31, prior year	\$899,140,183	\$736,623,068	\$793,750,749	\$626,829,888	\$543,496,683
Net income	\$2,714,006	\$25,381,512	\$14,839,045	\$37,917,210	\$32,921,251
Change in net unrealized capital gains or (losses)	61,369,003	144,854,254	(72,653,901)	133,984,061	53,624,412
Change in net deferred income tax	301,998	1,302,854	596,581	(4,651,886)	633,876
Change in nonadmitted assets	(467,097)	(9,096,505)	141,994	(246,924)	(3,957,334)
Change in provision for reinsurance	5,000	75,000	(51,400)	(81,600)	111,000
Change in surplus as regards policyholders	\$63,922,910	\$162,517,115	(\$57,127,681)	\$166,920,861	\$83,333,205
Surplus as regards policyholders December 31, current year	<u>\$963,063,093</u>	<u>\$899,140,183</u>	<u>\$736,623,068</u>	<u>\$793,750,749</u>	<u>\$626,829,888</u>



## **NOTES TO THE FINANCIAL STATEMENTS**

### **Note 1 - Bonds**

At December 31, 2020, Franklin Mutual reported an asset for bonds of \$31,033,867, which was accepted for purposes of this examination.

### **Note 2 - Losses and Loss Adjustment Expenses**

The reserves for losses and loss adjustment expenses as reported by the Company at December 31, 2020 were \$95,693,206 and \$16,113,494, respectively. A review of these reserves by Actuarial Specialists from the firm Risk & Regulatory Consulting, LLC, engaged by the New Jersey Department of Banking and Insurance – Office of Solvency Regulation, was completed and the review indicated that no reserve adjustment was necessary.

### **Note 3 - Surplus as Regards Policyholders**

The Company's surplus as regards policyholders at December 31, 2020 was \$963,063,093, which consisted of unassigned funds of \$963,063,093. The amounts reported were accepted as stated by this examination.

## **SUBSEQUENT EVENTS**

Effective September 28, 2021, the Company's indirect subsidiary, Fidelity Mohawk, became licensed in Pennsylvania and is expected to commence writing business in 2022, which will be 100 percent ceded to Franklin Mutual under the quota share agreement. In addition, the State of New Jersey authorized Fidelity Mohawk's amendment to its Certificate of Incorporation to change its name to POM Insurance Company, effective June 1, 2021. The group plans to utilize POM Insurance Company to expand into the Pennsylvania market.

## **SUMMARY OF EXAMINATION RECOMMENDATIONS**

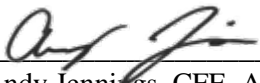
- p. 9** Corporate Records - It is recommended that the Company file all amendments to its corporate records, including its by-laws, with the New Jersey Department of Banking and Insurance.

**CONCLUSION**

The examination of Franklin Mutual Insurance Company as of December 31, 2020, was conducted under the supervision of the State of New Jersey, Department of Banking and Insurance, by the undersigned.

The courteous cooperation and assistance extended during the course of this examination by the officers of the Company and members of the office staff are hereby acknowledged.

Respectfully submitted,



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Andy Jennings, CFE, ARM  
Examiner-In-Charge  
Risk & Regulatory Consulting, LLC  
Representing the New Jersey Department of Banking and Insurance

Under the Supervision of,




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Nancy Lee Chice, CFE  
CFE Reviewer, Supervising Examiner  
New Jersey Department of Banking and Insurance


**AFFIDAVIT**

I, Andy Jennings, do solemnly swear that the foregoing report of examination is hereby represented to be a full and true statement of the condition and affairs of Franklin Mutual Insurance Company as of December 31, 2020 to the best of my information, knowledge and belief.

Respectfully submitted,

  
\_\_\_\_\_  
Andy Jennings, CFE, ARM  
Examiner-In-Charge  
Risk & Regulatory Consulting, LLC


Under the supervision of,

  
\_\_\_\_\_  
Nancy Lee Chice, CFE  
CFE Reviewer, Supervising Examiner  
New Jersey Department of Banking and Insurance

State of New Jersey  
County of Mercer

Subscribed and sworn to before me,  
On this 22<sup>nd</sup> day of September 2022

Signed,

  
Notary Public of the State of New Jersey  
My commission expires on: July 2025