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## Best's Rating and Report Updates for JEWELERS MUTUAL INSURANCE COMPANY

Best's Rating of A+ (Superior)  
Financial Size Category of VII ( \$50 million to \$100 million)

**Rating Category (Superior):** Assigned to companies that have, in our opinion, a superior ability to meet their ongoing obligations to policyholders. A.M. Best assigns each letter rated (A++ through D) insurance company a **Financial Size Category (FSC)**, which is designed to provide a convenient indicator of the size of a company based on reported policyholders' surplus and conditional or reserve funds.

The objective of Best's rating system is to provide an opinion of an insurer's financial strength and ability to meet ongoing obligations to policyholders. Our opinions are derived from the evaluation of a company's balance sheet strength, operating performance and business profile as compared to Best's quantitative and qualitative standards. View our [Best's Rating System and Procedures](#) for more information.

While Best's Ratings reflect our opinion of a company's financial strength and ability to meet its ongoing obligations to policyholders, they are not a warranty, nor are they a recommendation of a specific policy form, contract, rate or claim practice. View our [entire notice](#) for complete details.

Note: The above information reflects the most recent Best's Rating for this company, which may have been released subsequent to the creation of the following Best's Company Report.

Best's Company Reports provide detailed business overview, extensive financial data and analytical commentary, product and geographic information, company history, as well as the rationale supporting the financial strength rating assigned by A.M. Best. These reports are updated on a regular basis based on input and analysis performed throughout the year.

*Best's Captive Center—Premium Data & Reports* supplies you with convenient access to unique, hard-to-find captive information, including studies, news, *Best's Company Reports* and more.

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**Best Company Report Revision Date - 04/13/2004 \***

The **Report Revision Date** \* represents the last significant material change made to this report. Other non-material changes may have been made to this report subsequent to this date, but are not reflected in the report revision date. The Best Company Report below was created based on the following dates.

Rating and Commentary <sup>1</sup>	Financial <sup>2</sup>	General Information <sup>3</sup>
<b>Best's Rating: 03/29/2004</b>	<b>Time Period: Annual - 2004</b>	<b>Corporate Structure: N/A</b>
<b>Rating Rationale: 03/29/2004</b>	<b>Last Updated: 03/07/2005</b>	<b>States Licensed: 12/31/2001</b>
<b>Report Commentary : 04/13/2004</b>	<b>Status: As Received</b>	<b>Officers and Directors: 02/19/2004</b>

**\*Note:** The **Rating and Commentary** <sup>1</sup> date outlines the most recent updates to the Company's Rating, Rationale, and Report Commentary for key rating and business changes. Report commentary may include significant changes to Business Review, Financial Performance/Earnings, Capitalization, Investment/Liquidity, or Reinsurance sections of the report. The **Financial** <sup>2</sup> date reflects the current status of the financial tables found within the body of the Company Report, including whether the data was loaded as received or had been run through our quality control cross-check process. The **General Information** <sup>3</sup> date covers key areas that may have changed such as corporate structure, states licensed or officers and directors.

**Best's Company Report for  
JEWELERS MUTUAL INSURANCE COMPANY**

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FEIN#: 39-0493890

Report Revision Date: 04/13/2004

## BEST'S RATING

Based on our opinion of the company's Financial Strength, it is assigned a Best's Rating of A+ (Superior). The company's Financial Size Category is Class VII.

## RATING RATIONALE

**Rating Rationale:** This rating reflects the company's superior capitalization, consistently favorable operating profitability, strong balance sheet liquidity and reputation as the nation's leading insurance company specializing in jewelry insurance and the jewelry industry. These strengths are offset by the company's narrow product / business concentration in the jewelry industry, exposing the company to potential adverse effects from competition, and its sizeable common stock and real estate investments. Nevertheless, A.M. Best views the rating outlook as stable based upon the company's consistent profitability, capital generation and overall financial strength.

The positive rating factors are derived from Jewelers Mutual's solid balance sheet strength, ability to generate surplus organically, and the company's specialty niche underwriting expertise. The rating also recognizes management's focus and adherence to its core competency, extensive loss control programs, and Jewelers Mutual's well-diversified geographic scope operating in all fifty states. In addition, the company maintains active involvement in loss prevention activities for the jewelry industry, which, over the years, has contributed to the company's underwriting profitability and favorable returns. Management enrolls all commercial policyholders in the Jewelers' Security Alliance, a national organization to prevent, monitor and help solve crimes in the jewelry industry.

**Best's Rating: A+**

**Outlook: Stable**

## FIVE YEAR RATING HISTORY

<u>Date</u>	<u>Best's Rating</u>
03/29/04	A+
05/16/03	A+
06/18/02	A+
06/18/01	A+
05/05/00	A+
06/01/99	A+

## KEY FINANCIAL INDICATORS

Period Ending	Statutory Data (\$000)		
	Direct	Net	Pretax
	Premiums Written	Premiums Written	Operating Income
2000	54,313	52,573	6,026
2001	63,404	59,363	5,047
2002	81,846	75,225	9,770
2003	87,474	82,272	12,737
2004	91,918	85,299	6,037

Period Ending	Statutory Data (\$000)		
	Net	Total	Policy-
	Income	Admitted	holders' Surplus
2000	5,941	113,766	71,706
2001	4,643	122,096	70,820
2002	6,840	134,772	74,416
2003	8,444	156,576	87,317
2004	5,595	166,367	93,256

Period Ending	Profitability			Leverage			Liquidity	
	Comb. Ratio	Inv.	Pretax	NA Inv Lev	NPW to PHS	Net Lev	Overall Liq (%)	Oper. Cash- flow (%)
		Yield (%)	ROR (%)					
2000	94.5	3.9	11.8	43.6	0.7	1.3	270.5	111.8
2001	95.9	4.2	9.1	41.8	0.8	1.6	238.1	116.9
2002	86.8	4.2	14.9	36.4	1.0	1.8	223.3	119.0
2003	86.8	3.6	16.5	44.2	0.9	1.7	226.1	119.4
2004	97.5	3.2	7.2	46.4	0.9	1.7	227.6	109.0
5-Yr Avg	92.2	3.8	11.9	...	...	...	...	...

(\*) Data reflected within all tables of this report has been compiled from the company-filed statutory statement. Within several financial tables of this report, this company is compared against the Property Composite.

(\*) The most recent data contained in this Best's Company Report is "As Received" indicating that this financial data was recorded as it was received from the company. While the data provided were obtained from sources believed to be reliable, their accuracy cannot be guaranteed.

## BUSINESS REVIEW

Wisconsin-based Jewelers Mutual Insurance Company is the only insurer in the country that specializes in providing insurance coverage for the jewelry industry. The company's premium volume is derived from commercial multiple peril and inland marine coverage for retail, wholesale and manufacturing jewelers and jewelry related risks. Personal inland marine insurance coverages account for the remainder and are limited to jewelry floaters for individuals. Trends in criminal activity play a critical role as the least predictable factor affecting the company's results. Management proactively attempts to minimize the exposure to armed robbery, burglary, retail theft, losses while traveling with jewelry, and employee dishonesty by enrolling its policyholders in the

Jewelers' Security Alliance, a national non-profit organization founded to prevent, monitor and help solve crimes against the jewelry industry. Additionally, the company has produced a series of educational videos that address loss prevention methods to reduce the risk of criminal losses.

Policy contracts are participating and are written at both standard and deviated rates. All policies are issued on a non-assessable basis. The company issues Jewelers Block and Business Owners Policies as well as a combination of the two policies in a package at modest discounts in various jurisdictions. Approximately 23% of the business is produced by direct mail. The balance of premium writings is developed through approximately 400 independent agencies, the majority of which have represented the company for more than 10 years, 4 brokerage firms, and 4 exclusive agents.

### 2004 BUSINESS PRODUCTION AND PROFITABILITY (\$000)

Product Line	Premiums Written		% of Total NPW	Pure Loss Ratio	Loss & LAE Reserves
	Direct	Net			
Inland Marine	74,907	70,592	82.8	50.0	10,778
Com'l MultiPeril	16,954	14,704	17.2	49.2	9,709
All Other	57	4	0.0	64.1	...
Totals	91,918	85,299	100.0	49.8	20,487

**Major 2004 Direct Premium Writings By State (\$000):** New York, \$ 11,948 (13.0%); California, \$ 11,667 (12.7%); Texas, \$ 7,585 (8.3%); Florida, \$ 7,051 (7.7%); Illinois, \$ 4,154 (4.5%); 47 other jurisdictions, \$ 49,513 (53.9%).

### FINANCIAL PERFORMANCE <sup>®</sup>

Jewelers Mutual's performance has been quite strong over the past five years and far exceeds that of other property writers as measured by pre-tax return on surplus. These results have been driven by underwriting profits in each of the last five years supplemented by investment income from the company's fixed income portfolio. The company's net performance has experienced some variation due to the company's periodic harvesting of capital gains on the equity portfolio, the reclassification of certain assets to non-admitted status in 2000 and 2001, and due to unrealized losses in the investment portfolio between 1999 and 2002.

The company has reported a five-year combined ratio of 90.9% - 11 points lower than that of other property writers over the last five years. The underwriting results include sizable dividends paid to policyholders in 2000. The company pays dividends periodically, dependent upon the company meeting operating performance benchmarks. In 2004, the company anticipates paying \$5.1 million of dividends. In 2002 and 2003, Jewelers Mutual reported its best underwriting results of the last five years due in part to the lack of policyholder dividends paid. Results in 2002 benefited from the releasing of \$1.5 million of reserve redundancies. However, the 2003 results showed a small amount of adverse development totaling \$416,000 due to an increase in severity. Although the company's book of business is property oriented, underwriting results are less exposed to weather related losses and catastrophes since the vast majority of its policies cover the loss or damage of jewelry. Accordingly, factors affecting profitability are mainly changes in economic trends and criminal activity. Nevertheless, based on the company's successful track record, Best anticipates underwriting results will continue to be favorable in the future. This expectation is further supported by management's loss control procedures, strict underwriting and expertise in its niche market.

## PROFITABILITY ANALYSIS

Period Ending	Company				Industry Composite			
	Pretax ROR (%)	Return on PHS(%)	Comb. Ratio	Oper. Ratio	Pretax ROR (%)	Return on PHS(%)	Comb. Ratio	Oper. Ratio
2000	11.8	3.7	94.5	87.1	2.2	-5.9	109.1	96.3
2001	9.1	0.3	95.9	88.3	-12.7	-20.7	120.8	109.9
2002	14.9	2.3	86.8	80.0	-4.1	-12.0	109.4	98.5
2003	16.5	18.1	86.8	81.3	15.5	19.3	91.1	82.4
2004	7.2	8.6	97.5	92.2	...	...	...	...
5-Yr Avg	11.9	7.0	92.2	85.8	...	...	...	...

## UNDERWRITING EXPERIENCE

Year	Net Undrw Income (\$000)	Loss Ratios			Expense Ratios			Div. Pol.	Comb Ratio
		Pure Loss	LAE	Loss & LAE	Net Comm	Other Exp.	Total Exp.		
2000	2,159	38.8	8.2	47.1	14.0	25.8	39.9	7.5	94.5
2001	661	50.8	6.1	56.9	14.8	24.3	39.0	...	95.9
2002	5,115	46.1	3.7	49.8	15.7	21.2	37.0	...	86.8
2003	8,247	44.6	5.5	50.2	15.3	21.4	36.7	...	86.8
2004	1,402	49.8	5.0	54.8	15.0	21.5	36.5	6.2	97.5
5-Yr Avg	...	46.4	5.5	51.9	15.0	22.5	37.5 <sup>®</sup>	2.7	92.2

**Investment Income:** Modest investment yields have been reported over the last five years. Despite an increasing invested asset base and a lengthening of the maturity of the portfolio over the last five years, investment income has remained relatively flat as short-term rates have continued to decline. The investment portfolio is primarily made up of municipal issues, investment grade corporate bonds, and U.S. Treasuries. The average maturity of fixed income investments is approximately six years. The company also invests in common stock securities that are valued at 38% of year-end surplus and affiliated real estate investments valued at approximately 7% of year-end surplus. The below average investment yield can be attributed to investments in tax-free bonds as well as common stocks and real estate. Unrealized losses on the common stock portfolio between 1999 and 2002 served to reduce total return on invested assets.

## INVESTMENT INCOME ANALYSIS (\$000)

Year	Company		
	Net Inv Income	Realized Capital Gains	Unrealized Capital Gains
2000	3,720	2,311	-3,305
2001	4,216	1,899	-4,459
2002	4,444	664	-5,153
2003	4,314	445	6,201
2004	4,409	1,556	2,141

Year	Company			Industry Composite	
	Inv Inc Growth (%)	Inv Yield (%)	Total Return (%)	Inv Inc Growth (%)	Inv Yield (%)
2000	14.1	3.9	2.8	-1.1	4.2
2001	13.4	4.2	1.6	-0.8	4.2
2002	5.4	4.2	0.0	3.2	4.0
2003	-2.9	3.6	9.4	4.8	3.9
2004	2.2	3.2	6.0	...	...
5-Yr Avg	35.3	3.8	4.2	...	...

## INVESTMENT PORTFOLIO ANALYSIS

Asset Class	2004 Inv Assets		% of Invested Assets		Annual % Chg
	(\$000)		2004	2003	
Long-Term bonds	87,036		60.7	61.6	6.1
Stocks	36,800		25.7	24.7	12.1
Affiliated Investments	5,736		4.0	4.6	-6.7
Other Inv Assets	13,752		9.6	9.1	13.7
Total	143,325		100.0	100.0	7.7

## 2004 BOND PORTFOLIO ANALYSIS

Asset Class	% of Total Bonds	Mkt Val to Stmt Val(%)	Avg. Maturity (Yrs)	Class 1 - 2 (%)	Class 3 - 6 (%)	Struc. Secur. (%)	Struc. Secur. (% of PHS)
	Governments	6.2	-0.1	10.5	100.0	...	...
States, terr & poss	67.4	2.4	6.4	100.0	...	0.1	0.1
Corporates	26.4	5.8	4.3	100.0	...	20.0	4.9
Total all bonds	100.0	3.1	6.1	100.0	...	5.3	5.0

## CAPITALIZATION

### CAPITAL GENERATION ANALYSIS (\$000)

Year	Source of Surplus Growth		
	Pretax Operating Income	Total Inv. Gains	Net Contrib. Capital
2000	6,026	-994	...
2001	5,047	-2,559	...
2002	9,770	-4,490	...
2003	12,737	6,646	...
2004	6,037	3,697	...

Year	Company			Industry Composite	
	Inv Inc Growth (%)	Inv Yield (%)	Total Return (%)	Inv Inc Growth (%)	Inv Yield (%)
2000	14.1	3.9	2.8	-1.1	4.2
2001	13.4	4.2	1.6	-0.8	4.2
2002	5.4	4.2	0.0	3.2	4.0
2003	-2.9	3.6	9.4	4.8	3.9
2004	2.2	3.2	6.0	...	...
5-Yr Avg	35.3	3.8	4.2	...	...

## INVESTMENT PORTFOLIO ANALYSIS

Asset Class	2004 Inv		Annual % Chg
	Assets (\$000)	% of Invested Assets 2004	
Long-Term bonds	87,036	60.7	61.6
Stocks	36,800	25.7	24.7
Affiliated Investments	5,736	4.0	4.6
Other Inv Assets	13,752	9.6	9.1
Total	143,325	100.0	100.0

## 2004 BOND PORTFOLIO ANALYSIS

Asset Class	% of Total	Mkt Val to Stmt Val(%)	Avg. Maturity (Yrs)	Class 1 - 2 (%)	Class 3 - 6 (%)	Struc. Secur. (%)	Struc. Secur. (% of PHS)
	Governments	6.2	-0.1	10.5	100.0	...	...
States, terr & poss	67.4	2.4	6.4	100.0	...	0.1	0.1
Corporates	26.4	5.8	4.3	100.0	...	20.0	4.9
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## CAPITALIZATION

### CAPITAL GENERATION ANALYSIS (\$000)

Year	Source of Surplus Growth		
	Pretax Operating Income	Total Inv. Gains	Net Contrib. Capital
2000	6,026	-994	...
2001	5,047	-2,559	...
2002	9,770	-4,490	...
2003	12,737	6,646	...
2004	6,037	3,697	...

5-Yr Total	39,617	2,301	0
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Year	Source of Surplus Growth		
	Other, Net of Tax	Change in PHS	PHS Growth (%)
2000	-2,248	2,785	4.0
2001	-3,373	-886	-1.2
2002	-1,684	3,596	5.1
2003	-6,483	12,901	17.3
2004	-3,795	5,939	6.8
5-Yr Total	-17,583	24,335	...

**Overall Capitalization:** Jewelers Mutual's financial strength rating is commensurate with its capitalization as measured by Best's Capital Adequacy Ratio (BCAR). The company's strong capitalization is derived from its conservative balance sheet driven by prudent underwriting leverage including modest loss reserve leverage and reinsurance dependence. This is partially offset by common stock and affiliated investment leverage. Surplus growth has been modest over the last five years as represented by a compound annual growth rate of approximately 6%. This growth was primarily driven by favorable operating returns but hampered in recent years by significant unrealized capital losses. Further limiting surplus growth has been the payment of policyholder dividends from time to time.

### QUALITY OF SURPLUS (\$000)

Year	Year-End PHS	% of PHS			Dividend Requirements		
		Cap Stk/ Contrib. Cap.	Other	Un- assigned Surplus	Stock- holder Divs	Div to POI (%)	Div to Net Inc. (%)
2000	71,706	...	1.7	98.3	...	...	...
2001	70,820	...	1.8	98.2	...	...	...
2002	74,416	...	1.7	98.3	...	...	...
2003	87,317	...	1.4	98.6	...	...	...
2004	93,256	...	1.3	98.7	...	...	...

### LEVERAGE ANALYSIS

Year	Company				Industry Composite			
	NPW to PHS	Reserves to PHS	Net Lev	Gross Lev	NPW to PHS	Reserves to PHS	Net Lev	Gross Lev
2000	0.7	0.2	1.3	1.4	0.8	0.9	2.4	3.5
2001	0.8	0.2	1.6	1.6	1.0	1.0	3.0	4.3
2002	1.0	0.2	1.8	2.0	0.9	0.9	2.9	4.5
2003	0.9	0.2	1.7	1.8	1.0	0.7	2.6	3.8
2004	0.9	0.2	1.7	1.8	...	...	...	...

Current BCAR: 325.6

## PREMIUM COMPOSITION & GROWTH ANALYSIS

Period Ending	DPW		GPW	
	(\$000)	(% Chg)	(\$000)	(% Chg)
2000	54,313	11.1	54,653	10.9
2001	63,404	16.7	63,410	16.0
2002	81,846	29.1	81,846	29.1
2003	87,474	6.9	87,474	6.9
2004	91,918	5.1	91,918	5.1
5-Yr CAGR	...	13.5	...	13.3
5-Yr Change	...	88.0	...	86.5

Period Ending	NPW		NPE	
	(\$000)	(% Chg)	(\$000)	(% Chg)
2000	52,573	10.7	50,905	7.2
2001	59,363	12.9	55,285	8.6
2002	75,225	26.7	65,617	18.7
2003	82,272	9.4	77,106	17.5
2004	85,299	3.7	83,482	8.3
5-Yr CAGR	...	12.4	...	11.9
5-Yr Change	...	79.6	...	75.8

**Reserve Quality:** In recent years, reserves have generally developed favorably on an accident year basis. Adverse development on the 1998 and 1999 accident years during 2002 was due to loss adjustment expenses associated with injury claims. Small amounts of adverse development in 2003 can be attributed to an increase in severity with respect to crime related losses. Generally, adverse accident year reserve development over the last 10 years has fallen within a reasonable range. The aggregate level of reserves increased 22% in 2003 due to an increased reinsurance retention, increased policy exposure and an increase in the number of severe losses.

### LOSS & ALAE RESERVE DEVELOPMENT: CALENDAR YEAR (\$000)

Calendar Year	Original Loss Reserves	Developed Reserves Thru 2004	Develop. to Orig.(%)	Develop. to PHS (%)	Develop. to NPE (%)	Unpaid Reserves @ 12/2004	Unpaid Resrv. to Dev.(%)
1999	11,355	13,116	15.5	2.6	27.6	453	3.5
2000	12,149	11,661	-4.0	-0.7	22.9	753	6.5
2001	15,191	14,656	-3.5	-0.8	26.5	1,072	7.3
2002	14,171	13,819	-2.5	-0.5	21.1	2,192	15.9
2003	17,342	15,170	-12.5	-2.5	19.7	4,064	26.8
2004	18,363	18,363	...	...	22.0	18,363	100.0

### LOSS & ALAE RESERVE DEVELOPMENT: ACCIDENT YEAR (\$000)

Accident Year	Original Loss Reserves	Developed Reserves Thru 2004	Develop. to Orig.(%)	Unpaid Reserves @12/2004	Acc Yr. Loss Ratio	Acc Yr. Comb Ratio
1999	8,589	8,748	1.9	151	55.5	94.6

2000	7,943	6,697	-15.7	300	42.0	89.3
2001	12,628	11,298	-10.5	319	56.5	95.5
2002	10,564	9,262	-12.3	1,120	51.9	88.9
2003	11,909	10,504	-11.8	1,872	47.7	84.3
2004	14,299	14,299	...	14,299	58.2	100.9

### CEDED REINSURANCE ANALYSIS (\$000)

Year	Company			Industry Composite			
	Ceded Reins Total	Business Retention (%)	Rein Rec to PHS (%)	Ceded Reins to PHS (%)	Business Retention (%)	Rein Rec to PHS (%)	Ceded Reins to PHS (%)
2000	2,335	96.2	2.4	3.3	68.3	66.5	113.8
2001	6,137	93.6	3.0	8.7	73.0	94.1	131.6
2002	10,369	91.9	5.0	13.9	65.1	102.8	157.3
2003	8,280	94.1	3.5	9.5	73.1	77.1	116.6
2004	10,168	92.8	3.8	10.9	...	...	...

### 2004 REINSURANCE RECOVERABLES (\$000)

	Paid & Unpaid Losses	IBNR	Unearned Premiums	Other Recov*	Total Reins Recov
US Insurers	2,293	...	789	...	3,082
Other Non-US	261	...	206	...	467
Total (ex US Affils)	2,554	...	995	...	3,549
Grand Total	2,554	...	995	...	3,549

\* Includes Commissions less Funds Withheld

### INVESTMENT LEVERAGE ANALYSIS (% OF PHS)

Year	Company						Industry Composite	
	Class 3-6 Bonds	Real Estate/Mtg.	Other Invested Assets	Common Stocks	Non-Affl Inv. Lev.	Affil Inv.	Class 3-6 Bonds	Common Stocks
2000	0.3	5.1	1.7	36.5	43.6	8.7	4.7	69.5
2001	0.4	4.9	1.9	34.6	41.8	8.8	5.0	51.9
2002	0.3	4.5	1.6	29.9	36.4	8.2	6.2	40.5
2003	0.3	3.7	2.8	37.4	44.2	7.0	4.7	34.7
2004	...	3.4	3.8	39.2	46.4	6.2	...	...

## LIQUIDITY

**Overall Liquidity:** Jewelers' short-term liquidity is favorable as measured by quick and current liquidity. Further enhancing the company's liquidity has been strong operating and net cash flows over the last five years.

## LIQUIDITY ANALYSIS

Year	Company				Industry Composite			
	Quick Liq (%)	Current Liq (%)	Overall Agents Liq (%)	Gross Bal to PHS (%)	Quick Liq (%)	Current Liq (%)	Overall Agents Liq (%)	Gross Bal to PHS (%)
2000	72.0	222.7	270.5	1.0	54.7	133.6	162.2	17.3
2001	55.5	186.5	238.1	1.2	41.4	114.5	149.1	18.2
2002	46.6	170.1	223.3	1.6	45.5	116.2	150.5	18.2
2003	54.6	178.6	226.1	1.4	50.3	124.4	160.4	16.5
2004	57.1	183.9	227.6	1.2	...	...	...	...

## CASH FLOW ANALYSIS (\$000)

Year	Company			Industry Composite			
	Underw Cash Flow	Oper Cash Flow	Net Cash Flow	Underw Cash Flow (%)	Oper Cash Flow (%)	Underw Cash Flow (%)	Oper Cash Flow (%)
2000	4,424	5,868	392	109.4	111.8	83.0	92.0
2001	5,662	8,907	2,305	111.1	116.9	94.0	104.6
2002	11,359	12,475	2,059	118.4	119.0	95.1	102.7
2003	13,077	13,399	-698	120.2	119.4	108.9	112.8
2004	4,270	7,542	724	105.2	109.0	...	...

## HISTORY

The company was organized on March 12, 1913 under the laws of Wisconsin as National Jewelers Mutual Fire Insurance Company. It began business on June 1, 1914. The present title was adopted April 30, 1952.

## MANAGEMENT

Administration of the company's affairs is under the direction of president & chief executive officer Ronald R. Harder, who has held various management positions with the company since joining it in 1973. He held the title of chief operating officer before assuming his present position in 1982. The company was formed by jewelers to serve their industry. The company is the only carrier in the United States writing insurance coverage exclusively on behalf of jewelers and individual owners of jewelry.

**Officers:** President and Chief Executive Officer, Ronald R. Harder; Vice President and Chief Operating Officer, Darin L. Kath; Vice President and Treasurer, William J. Stoegbauer; Vice Presidents, Beverly J. Kargus, Jeffrey A. Mills, Connie L. Rank-Smith; Secretary, James T. Prosser.

**Directors:** R. William Barker, Jonathan J. Bridge, Patti J. Geolat, Hugh G. Glenn, Ronald R. Harder, Nancee A. James, Charles A. Lasker, John A. Michaels, Carl J. Rudolph, Thomas D. Silver.

## REGULATORY

An examination of the financial condition was made as of December 31, 1998 by the Insurance Department of Wisconsin. An annual independent audit of the company is conducted by Ernst & Young, LLP. An annual evaluation of reserves for unpaid losses and loss adjustment expenses is made by Regnier Consulting Group, Inc.

## TERRITORY

The company is licensed in all states. It also operates on a surplus lines or non-admitted basis in the District of Columbia.

## REINSURANCE PROGRAMS

The company retains the first \$1.0 million on any one risk. Excess of loss reinsurance provides coverage utilizing a four-tier approach on property and casualty risks. Jewelers Mutual retains a percentage of each tier. This equates to coverage for excess of loss of approximately \$37 million excess of \$1 million. Facultative reinsurance is purchased for risks in excess of \$40 million. The largest ultimate net amount retained on any one-property risk is \$3.019 million.

Catastrophe reinsurance provides coverage also using a four-tier approach. The company retains a percentage of each tier. This equates to coverage on catastrophe loss of approximately \$26.8 million excess of \$2.5 million.

## BALANCE SHEET (\$000)

<u>ADMITTED ASSETS</u>	<u>12/31/2004</u>	<u>12/31/2003</u>	<u>2004 %</u>	<u>2003 %</u>
Bonds	87,036	82,056	52.3	52.4
Preferred stock	216	200	0.1	0.1
Common stock	36,584	32,615	22.0	20.8
Cash & short-term invest	5,915	5,191	3.6	3.3
Real estate, investment	3,132	3,259	1.9	2.1
Other non-affil inv asset	3,548	2,480	2.1	1.6
Investments in affiliates	595	718	0.4	0.5
Real estate, offices	5,141	5,433	3.1	3.5
Total invested assets	142,168	131,951	85.5	84.3
Premium balances	20,702	20,780	12.4	13.3
Accrued interest	1,157	1,166	0.7	0.7
All other assets	2,341	2,679	1.4	1.7
Total assets	166,367	156,576	100.0	100.0
<u>LIABILITIES &amp; SURPLUS</u>	<u>12/31/2004</u>	<u>12/31/2003</u>	<u>2004 %</u>	<u>2003 %</u>
Loss & LAE reserves	20,487	19,378	12.3	12.4
Unearned premiums	45,299	43,545	27.2	27.8
All other liabilities	7,326	6,336	4.4	4.0
Total liabilities	73,112	69,259	43.9	44.2

Capital & assigned surplus	1,250	1,250	0.8	0.8
Unassigned surplus	92,006	86,067	55.3	55.0
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Total policyholders' surplus	93,256	87,317	56.1	55.8
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Total liabilities & surplus	166,367	156,576	100.0	100.0

## SUMMARY OF 2004 OPERATIONS (\$000)

<u>STATEMENT OF INCOME</u>	<u>12/31/2004</u>	<u>FUNDS PROVIDED FROM OPERATIONS</u>	<u>12/31/2004</u>
Premiums earned	83,482	Premiums collected	86,291
Losses incurred	41,605	Benefit & loss related pmts	41,381
LAE incurred	4,162	Net transfers to accounts	...
Undrw expenses incurred	31,101	LAE & undrw expenses paid	35,427
Div to policyholders	5,213	Div to policyholders	5,213
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Net underwriting income	1,402	Undrw cash flow	4,270
Net investment income	4,409	Investment income	5,123
Other income/expense	226	Other income/expense	226
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Pre-tax oper income	6,037	Pre-tax cash operations	9,619
Realized capital gains	1,556		
Income taxes incurred	1,998	Income taxes pd (recov)	2,077
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Net income	5,595	Net oper cash flow	7,542

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