Report of the Examination of

McMillan-Warner Mutual Insurance Company

Marshfield, Wisconsin

As of December 31, 2019

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February 24, 2021

Honorable Mark V. Afable
Commissioner of Insurance
State of Wisconsin
125 South Webster Street
Madison, Wisconsin 53703

Commissioner:

In accordance with your instructions, a compliance examination has been made of the affairs and financial condition of:

MCMILLAN-WARNER MUTUAL INSURANCE COMPANY
Marshfield, Wisconsin

and this report is respectfully submitted.

I. INTRODUCTION

The previous examination of McMillan-Warner Mutual Insurance Company (the company or MWMIC) was conducted in 2015 as of December 31, 2014. The current examination covered the intervening period ending December 31, 2019, and included a review of such subsequent transactions as deemed necessary to complete the examination.

All accounts and activities of the company were considered, including assessing significant estimates made by management and evaluating management’s compliance with statutory accounting principles, annual statement instructions, and Wisconsin laws and regulations. The examination does not attest to the fair presentation of the financial statements included herein. If during the course of the examination an adjustment is identified, the impact of such adjustment will be documented separately at the end of the “Financial Data” section in the area captioned "Reconciliation of Surplus per Examination."

Emphasis was placed on those areas of the company's operations accorded a high priority by the examiner-in-charge when planning the examination. Special attention was given to the action taken by the company to satisfy the recommendations and comments made in the previous examination report.

The company is annually audited by an independent public accounting firm as prescribed by s. Ins 50.05, Wis. Adm. Code. An integral part of this compliance examination was the review of the independent accountant's work papers. Based on the results of the review of these work papers, alternative or additional examination steps deemed necessary for the completion of this examination were performed. The examination work papers contain documentation concerning the alternative or additional examination steps performed during the examination.

In addition to auditing, the public accounting firm performs non-auditing services for the company, including the preparation of journal entries, financial statements, and tax returns. On December 13, 2010, an exemption was granted by the Commissioner, pursuant to s. Ins 50.08 (5), Wis. Adm. Code, permitting the independent auditor to perform this non-audit work for the company.

II. HISTORY AND PLAN OF OPERATION

The company was organized in 1898, as McMillan Grange Mutual Fire Insurance Company. In 1982, the company merged with Warner Fire Town Mutual and changed its name to that presently used. On January 1, 2000, the company converted to a ch. 611, Wis. Stat., nonassessable mutual company. Effective January 1, 2005, the company entered into a merger agreement with Lindina Town Mutual Insurance Company. The surviving company was McMillan-Warner Mutual Insurance Company. As a result of the merger, a subsidiary was established, Lindina Insurance Agency, Inc. (the agency). Further information regarding the agency is provided under the “Affiliated Companies” section of this report. Also, effective January 1, 2017, the company entered into a merger agreement with Calumet Equity Mutual Insurance Company. The surviving company was McMillan-Warner Mutual Insurance Company.

The company is licensed in two states – Wisconsin and Illinois, but Wisconsin is the only state in which the company currently writes business. The major products marketed by the company are homeowners and farmowners policies. The company also writes private passenger auto, commercial multi-peril, and umbrella business. There was one significant change in the company’s products since the previous examination, where the company started to offer private passenger auto insurance in conjunction with homeowners or farmowners coverage in 2019. The company’s products are marketed through approximately 255 independent agents operating out of 34 agencies.

The following table is a summary of the net insurance premiums written by the company in 2019. The growth of the company is discussed in the “Financial Data” section of this report.

Line of Business	Direct Premium	Reinsurance Assumed	Reinsurance Ceded	Net Premium
Farmowners multiple peril	$ 6,257,228	$0	$2,078,837	$4,178,391
Homeowners multiple peril	5,156,140		1,609,661	3,546,479
Commercial multiple peril	84,203		24,820	59,383
Other liability – occurrence	160,940		154,930	6,010
Private passenger auto liability	72,177		62,120	10,057
Auto physical damage	72,586		62,120	10,466
Boiler and machinery	288,328		288,328	
Total All Lines	$12,091,602	$0	$4,280,816	$7,810,786

III. MANAGEMENT AND CONTROL

Board of Directors

The board of directors consists of nine members. Three directors are elected annually to serve a three-year term. Officers are elected at the board's annual meeting. The board members currently receive $250 for a full-day meeting, $85 for a half-day meeting, and $30 an hour for other duties as compensation for serving on the board, in addition to mileage reimbursement of $0.575 per mile. The board chair is paid a monthly fee of $150.

Currently, the board of directors consists of the following persons:

Name and Residence	Principal Occupation	Term Expires
Jerry Criter Chilton, Wisconsin	Retired Farmer	2022
Keith Eibergen Granton, Wisconsin	Farmer	2021
Georgette Frazer Marshfield, Wisconsin	Retired Financial Planner	2021
Jeff Kluckhohn Neillsville, Wisconsin	Small Business Owner	2021
James Kolba Mauston, Wisconsin	Postal Worker	2023
Jeffrey Kolstad Marshfield, Wisconsin	Commercial Loan Officer	2022
Paula Mader Abbotsford, Wisconsin	Independent Agent	2022
Jana Lee Marden Neillsville, Wisconsin	Retired Agent	2023
Roman Schaefer Jr. Marshfield, Wisconsin	Retired Farmer	2023

Officers of the Company

The officers serving at the time of this examination are as follows:

Name	Office
Jeffrey Kolstad	Chairman
Keith Eibergen	Vice Chairman
Roman Schaefer Jr.	Treasurer
Jana Lee Marden	Secretary
Scott Krum	CEO

Committees of the Board

The company's bylaws allow for the formation of certain committees by the board of directors. The committees at the time of the examination are listed below:

Executive Committee
Jeffrey Kolstad, Chair
Keith Eibergen
Jana Lee Marden
Roman Schaefer Jr.

Nominating Committee
Roman Schaefer Jr., Chair
James Kolba
Jana Lee Marden

Expense Committee
Keith Eibergen, Chair
Jeff Kluckhohn
James Kolba

Annual Meeting/Advertising
Jana Lee Marden, Chair
Keith Eibergen
Georgette Frazer

Investment Committee
Georgette Frazer, Chair
Keith Eibergen
Jeffrey Kolstad
Roman Schaefer Jr.

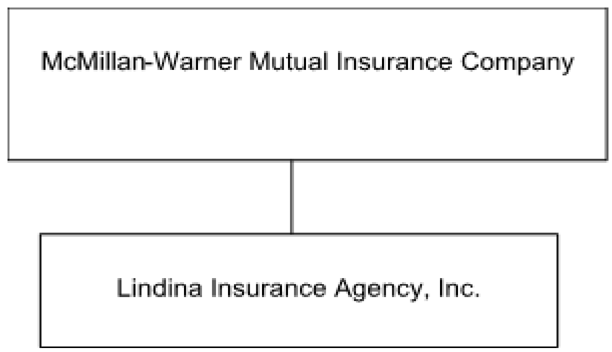
Building and Maintenance Committee
Jeff Kluckhohn, Chair
Jerry Criter
Paula Mader
Jana Lee Marden
Roman Schaefer Jr.

Scholarship Committee
Paula Mader, Chair
Keith Eibergen
Georgette Frazer
Jeff Kluckhohn
Roman Schaefer Jr.

IV. AFFILIATED COMPANIES

McMillan-Warner Mutual Insurance Company is a member of a holding company system. The organizational chart below depicts the relationships among the affiliates in the group. A brief description of the significant affiliates follows the organizational chart.

Organizational Chart
As of December 31, 2019



Lindina Insurance Agency, Inc.

Lindina Insurance Agency, Inc. was formed on January 1, 2005, as a result of the merger agreement with Lindina Town Mutual Insurance Company. In 2009, the company sold the agency's marketing and renewal rights to approximately 150 policyholders to an unaffiliated agency.

The agency previously allowed company agents to become sub-producers for Rockford Mutual Insurance Company (Rockford Mutual) in order to allow them to write auto insurance. Since the reinsurance relationship with Rockford Mutual has ended, the agency is no longer licensed to write Rockford Mutual auto insurance. The company is keeping the agency active primarily for future partnership opportunities. Currently, no policies are being written. Terminated agents can apply and are allowed to use the agency to service current active policies written by the company. The agency receives commissions on about 50 policies. As of December 31, 2019, the company reported the value of the agency as $1,000.

V. REINSURANCE

The company's reinsurance portfolio and strategy at the time of the examination are described below. A list of the companies that have a significant amount of reinsurance in force at the time of the examination follows. The contracts contained proper insolvency provisions.

Nonaffiliated Ceding Contracts

1. Type: Multiple Line Excess of Loss Reinsurance Contract

Participating reinsurers: As of January 1, 2020, participation was as follows:

Swiss Reinsurance America Corporation	52.0%
AXIS Reinsurance Company	7.5
Grinnell Mutual Reinsurance Company	7.0
Allied World Reinsurance Management Company	17.5
Hannover Ruck SE	8.5
XL Reinsurance America Inc.	2.5
The Toa Reinsurance Company of America	5.0
Total	100.0%

Scope:
Section A: All business classified by the company as property
Section B: All business classified by the company as casualty
Section C: All losses involving Sections A & B

Retention:
First Layer:

Section A: $200,000 ultimate net loss, each loss, each risk
Section B: $100,000 ultimate net loss, each loss occurrence
Section C: $200,000 ultimate net loss, each loss occurrence

Second Layer:

Section A: $500,000 ultimate net loss, each loss, each risk
Section B: $500,000 ultimate net loss, each loss occurrence

Coverage:
First Layer:

Section A: $300,000 excess of $200,000 each loss, each risk, subject to a per occurrence limit of $900,000
Section B: $400,000 in excess of $100,000 each loss occurrence
Section C: $100,000 each loss occurrence in excess of $200,000 each loss occurrence, for any loss involving both Sections A & B

Second Layer:

Section A: $1,500,000 excess of $500,000 each loss, each risk, subject to a per occurrence limit of $4,500,000
Section B: $600,000 excess of $500,000 each loss occurrence

Effective date: January 1, 2020

	Termination:	The contract is scheduled to expire on January 1, 2021. The company may terminate by giving written notice to the subscribing reinsurer in the event that certain circumstances occur.
2	Type:	Property Excess of Loss Reinsurance Agreement
	Reinsurer:	XL Reinsurance America, Inc.
	Scope:	Policies issued and classified by the company as property business (with total insured values greater than $2,000,000 each location)
	Retention:	The first $2,000,000 in ultimate net losses each insured, each location
	Coverage:	Ultimate net loss in excess of the company's retention up to a limit of $8,000,000 each insured, each location
	Effective date:	January 1, 2020
	Termination:	The contract is scheduled to expire on January 1, 2021. The company may terminate by giving written notice to the subscribing reinsurer in the event that certain circumstances occur.
3	Type:	Property Catastrophe Excess of Loss
	Participating reinsurers:	As of January 1, 2020, participation was as follows:

Swiss Reinsurance America Corporation	52.0%
AXIS Reinsurance Company	8.0
Grinnell Mutual Reinsurance Company	5.0
Shelter Reinsurance Company	5.0
Allied World Reinsurance Management Company	17.5
R+V Versicherung AG	10.0
XL Reinsurance America Inc.	2.5
Total	100.0%

Scope:	Property risks classified by the company as property
Retention:	First Layer: $500,000 ultimate net loss each loss occurrence Second Layer: $2,000,000 ultimate net loss each loss occurrence Third Layer: $4,000,000 ultimate net loss each loss occurrence Fourth Layer: $7,000,000 ultimate net loss each loss occurrence
Coverage:	First Layer: $1,500,000 excess of $500,000 each loss occurrence subject to an annual aggregate of $3,000,000, subject to aggregate annual deductible of $200,000 Second Layer: $2,000,000 excess of $2,000,000 each loss occurrence subject to an annual aggregate of $4,000,000 Third Layer: $3,000,000 excess of $4,000,000 each loss occurrence subject to an annual aggregate of $6,000,000

	Fourth Layer: $5,000,000 excess of $7,000,000 each loss occurrence subject to an annual aggregate of $10,000,000
Effective date:	January 1, 2020
Termination:	The contract is scheduled to expire on January 1, 2021. The company may terminate by giving written notice to the subscribing reinsurer in the event that certain circumstances occur.

4. Type: Aggregate Property and Casualty Excess of Loss Reinsurance Contract

Participating reinsurers: As of January 1, 2020, participation was as follows:

Swiss Reinsurance America Corporation	52.0%
AXIS Reinsurance Company	7.5
Grinnell Mutual Reinsurance Company	8.0
Allied World Reinsurance Management Company	17.5
Farmers Mutual Hail Insurance Company of Iowa	10.0
XL Reinsurance America Inc.	2.5
The Toa Reinsurance Company of America	2.5
Total	100.0%

Scope:	All business classified by the company as property and casualty, and the company shall maintain in force excess property catastrophe reinsurance, and recoveries under which shall inure to benefit of this contract.
Retention:	Property: The company's ultimate net loss exceeds 75% of its net earned premium. Casualty: The company's ultimate net loss exceeds 75% of its net earned premium.
Coverage:	Property: The amount by which the company's ultimate net loss exceeds 75% of its net earned premium, but the liability of the reinsurers shall not exceed 47.5% of its net earned premium. Casualty: The amount by which the company's ultimate net loss exceeds 75% of its net earned premium, but the liability of the reinsurers shall not exceed 47.5% of its net earned premium.
Effective date:	January 1, 2020
Termination:	The contract is scheduled to expire on January 1, 2021. The company may terminate by giving written notice to the subscribing reinsurer in the event that certain circumstances occur.

5. Type: Automobile Quota Share

Reinsurers:	Swiss Reinsurance America Corporation
Scope:	All business written classified as Automobile business
Retention:	15.0% each loss

	Coverage:	85.0% of each loss, including loss adjustment expense, on the business covered, subject to a maximum limit of liability (net of 85% share) of: • $1,000,000 any one casualty loss occurrence • $250,000 any one property risk, each loss • $750,000 all property risks any one occurrence limit
	Effective date:	January 1, 2020
	Termination:	The contract is scheduled to expire on January 1, 2021. The company may terminate by giving written notice to the subscribing reinsurer in the event that certain circumstances occur.
6.	Type:	Umbrella Quota Share
	Reinsurer:	Grinnell Mutual Reinsurance Company
	Scope:	All business written classified as umbrella liability. Part 1 - Quota share of first $1,000,000 limit of liability.
	Coverage:	90.0% of each loss occurrence, including loss adjustment expense, on the business covered by this Part, subject to a maximum limit of liability of $900,000 (90% of $1,000,000) on each loss occurrence Part 2 - 100% of $4,000,000 in excess of $1,000,000 each loss occurrence
	Retention:	$1,000,000
	Coverage:	100% of each and every loss, including loss adjustment expense, in excess of a net retention of $1,000,000, subject to the reinsurers limit of liability of 100% of $4,000,000 of each loss occurrence
	Effective date:	January 1, 2020
	Termination:	The contract is scheduled to expire on January 1, 2021. The company may terminate by giving written notice to the subscribing reinsurer in the event that certain circumstances occur.
7.	Type:	Equipment Breakdown Coverage Quota Share Reinsurance Agreement
	Reinsurer:	Factory Mutual Insurance Company
	Scope:	Equipment Breakdown and Service Line endorsements
	Retention:	None
	Coverage:	$100,000 for any one equipment breakdown (EB) and $10,000 for Service Line business on any one risk
	Effective date:	April 1, 2018
	Termination:	By either party by providing a 90-day written notice

VI. FINANCIAL DATA

The following financial statements reflect the financial condition of the company as reported to the Commissioner of Insurance in the December 31, 2019, annual statement. Adjustments made as a result of the examination are noted at the end of this section in the area captioned "Reconciliation of Surplus per Examination." Also included in this section are schedules that reflect the growth of the company, NAIC Insurance Regulatory Information System (IRIS) ratio results for the period under examination, and the compulsory and security surplus calculation.

McMillan-Warner Mutual Insurance Company
Assets
As of December 31, 2019

	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	$10,295,345	$	$10,295,345
Stocks:			
Preferred stocks	1,292,321		1,292,321
Common stocks	3,620,649	1,000	3,619,649
Real estate:			
Occupied by the company	96,965		96,965
Cash, cash equivalents, and short-term investments	926,433		926,433
Investment income due and accrued	83,688		83,688
Premiums and considerations:			
Uncollected premiums and agents' balances in course of collection	28,878		28,878
Deferred premiums, agents' balances, and installments booked but deferred and not yet due	1,897,537		1,897,537
Reinsurance:			
Amounts recoverable from reinsurers	77,229		77,229
Other amounts receivable under reinsurance contracts	24,587		24,587
Current federal and foreign income tax recoverable and interest thereon	96,963		96,963
Net deferred tax asset	339,000		339,000
Electronic data processing equipment and software	2,847		2,847
Furniture and equipment, including health care delivery assets	6,123	6,123	
Receivable from parent, subsidiaries, and affiliates	5,656		5,656
Write-ins for other than invested assets:			
Vehicles	102,093	102,093	
Total Assets	$18,896,314	$109,216	$18,787,098

McMillan-Warner Mutual Insurance Company
Liabilities, Surplus, and Other Funds
As of December 31, 2019

Losses		$ 1,722,730
Loss adjustment expenses		202,026
Commissions payable, contingent commissions, and other similar charges		576,148
Other expenses (excluding taxes, licenses, and fees)		71,045
Taxes, licenses, and fees (excluding federal and foreign income taxes)		9,396
Net deferred tax liability		
Borrowed money and interest thereon		250,000
Unearned premiums		5,851,204
Advance premium		349,959
Ceded reinsurance premiums payable (net of ceding commissions)		67,826
Amounts withheld or retained by company for account of others		4,929
Total Liabilities		9,105,263
Unassigned funds (surplus)	9,681,835	
Surplus as Regards Policyholders		9,681,835
Total Liabilities and Surplus		$18,787,098

McMillan-Warner Mutual Insurance Company
Summary of Operations
For the Year 2019

Underwriting Income		
Premiums earned		$ 7,682,494
Deductions:		
Losses incurred	$5,702,075	
Loss adjustment expenses incurred	1,107,873	
Other underwriting expenses incurred	3,579,231	
Total underwriting deductions		10,389,179
Net underwriting gain (loss)		(2,706,685)
Investment Income		
Net investment income earned	273,418	
Net realized capital gains (losses)	130,111	
Net investment gain (loss)		403,529
Other Income		
Write-ins for miscellaneous income:		
Billing fees	89,748	
Other	5,655	
Policy fee	330,217	
Total other income		425,620
Net income (loss) before dividends to policyholders and before federal and foreign income taxes		(1,877,536)
Net income (loss) after dividends to policyholders but before federal and foreign income taxes		(1,877,536)
Net Income (Loss)		$(1,877,536)

McMillan-Warner Mutual Insurance Company
Cash Flow
For the Year 2019

Premiums collected net of reinsurance			$ 7,853,660
Net investment income			343,974
Miscellaneous income			425,620
Total			8,623,254
Benefit- and loss-related payments		$5,420,581	
Commissions, expenses paid, and aggregate write-ins for deductions		4,672,305	
Federal and foreign income taxes paid (recovered)		(67,753)	
Total deductions			10,025,133
Net cash from operations			(1,401,879)
Proceeds from investments sold, matured, or repaid:			
Bonds	$3,034,266		
Stocks	2,727,140		
Total investment proceeds		5,761,407	
Cost of investments acquired (long-term only):			
Bonds	5,655,830		
Stocks	150,568		
Total investments acquired		5,806,398	
Net cash from investments			(44,991)
Cash from financing and miscellaneous sources:			
Borrowed funds		250,000	
Other cash provided (applied)		19,324	
Net cash from financing and miscellaneous sources			269,324
Reconciliation:			
Net Change in Cash, Cash Equivalents, and Short-Term Investments			(1,177,546)
Cash, cash equivalents, and short-term investments:			
Beginning of year			2,103,979
End of Year			$ 926,433

McMillan-Warner Mutual Insurance Company
Compulsory and Security Surplus Calculation
December 31, 2019

Assets		$18,787,098
Less security surplus of insurance subsidiaries		0
Less liabilities		9,105,263
Adjusted surplus		9,681,835
Annual premium:		
Lines other than accident and health	$7,810,786	
Factor	20%	
Compulsory surplus (subject to a minimum of $2 million)		2,000,000
Compulsory Surplus Excess (Deficit)		$ 7,681,835
Adjusted surplus (from above)		$ 9,681,835
Security surplus (140% of compulsory surplus, factor reduced 1% for each $33 million in premium written in excess of $10 million, with a minimum factor of 110%)		2,800,000
Security Surplus Excess (Deficit)		$ 6,881,835

McMillan-Warner Mutual Insurance Company
Analysis of Surplus
For the Five-Year Period Ending December 31, 2019

The following schedule details items affecting surplus during the period under examination as reported by the company in its filed annual statements:

	2019	2018	2017	2016	2015
Surplus, beginning of year	$10,856,566	$10,683,680	$11,011,211	$ 9,400,911*	$7,941,987
Net income	(1,877,536)	549,350	(375,474)	844,761	848,547
Change in net unrealized capital gains/losses	418,897	(371,869)	278,889	591,322	(172,167)
Change in net deferred income tax	322,000	24,000	(322,000)	24,000	(103,000)
Change in nonadmitted assets	(38,091)	(28,595)	91,054	150,217	(119,680)
Surplus, End of Year	$ 9,681,836	$10,856,566	$10,683,680	$11,011,211	$8,395,687

*Beginning surplus balance for 2016 was restated due to the merger with Calumet Equity during 2017.

McMillan-Warner Mutual Insurance Company
Insurance Regulatory Information System
For the Five-Year Period Ending December 31, 2019

The company's NAIC Insurance Regulatory Information System (IRIS) results for the period under examination are summarized below. Unusual IRIS results are denoted with asterisks and discussed below the table.

	Ratio	2019	2018	2017	2016	2015
#1	Gross Premium to Surplus	125%	106%	107%	100%	116%
#2	Net Premium to Surplus	81	75	73	72	81
#3	Change in Net Premiums Written	-4	5	12	2	10
#4	Surplus Aid to Surplus	0	0	0	0	0
#5	Two-Year Overall Operating Ratio	109*	102*	97	84	96
#6	Investment Yield	1.7*	2.1	2.1*	1.6*	1.5*
#7	Gross Change in Surplus	-11*	2	10	16	6
#8	Change in Adjusted Surplus	-11*	2	10	16	6
#9	Liabilities to Liquid Assets	44	39	37	37	40
#10	Agents' Balances to Surplus	0	0	0	0	0
#11	One-Year Reserve Development to Surplus	-2	2	-2	-4	-3
#12	Two-Year Reserve Development to Surplus	1	-3	-3	-3	-5
#13	Estimated Current Reserve Deficiency to Surplus	-6	-3	-2	-4	-8

The Two-Year Overall Operating Ratio (IRIS ratio No. 5) measures the company's profitability over the previous two-year period and was exceptional in 2019 and 2018. The exceptional results were caused by a combination of large fire losses, winter weather related losses, and wind and hail catastrophe losses. From 2015 to 2017, the company's underwriting results were better due to a reduced number of fire losses and wind and hail damage claims.

The Investment Yield ratio (IRIS ratio No. 6) measures the amount of the company's net investment income earned as a percentage of the two-year average amount of cash and invested assets and was considered exceptional in four of the five years under examination. Over the five-year period covered by this examination, the company has averaged an investment yield of 1.8% which is below the lower bound of this ratio. During the five years under examination, the company's common stock holdings have decreased from 57.4% to 50.7% of policyholders' surplus, with the company investing strategy emphasizing greater investment in bonds. On December 31, 2019, the company's investment assets consisted of cash and short-term investments 5.7%, bonds 63.4%, equity interests 30.3%, and company real estate 0.6%. Compared to peers, this equity allocation, combined with the short maturity, high quality nature of the bond portfolio produced below peer investment yields.

The Gross Change in Surplus Ratio (IRIS ratio No. 7) measures the improvement or deterioration in the insurer's financial condition during the year. The Change in Adjusted Surplus Ratio (IRIS ratio No. 8) measures the improvement or deterioration in the insurer's financial condition during the year based on operational results, where changes in surplus notes, capital changes, and surplus adjustments are removed from policyholders' surplus in order to highlight the insurer's actual operations. The exceptional numbers for both ratios in 2019 were caused by the poor underwriting results from a combination of large fire losses, winter weather related losses, and wind and hail catastrophe losses.

Growth of McMillan-Warner Mutual Insurance Company

Year	Admitted Assets	Liabilities	Surplus as Regards Policyholders	Net Income
2019	$18,787,098	$9,105,263	$ 9,681,835	$(1,877,536)
2018	19,170,561	8,313,995	10,856,566	549,350
2017	18,464,693	7,781,013	10,683,680	(375,474)
2016	18,723,066	7,711,855	11,011,211	844,761
2015	15,218,394	6,822,707	8,395,687	848,547
2014	14,458,510	6,516,523	7,941,987	(361,348)

Year	Gross Premium Written	Net Premium Written	Premium Earned	Loss and LAE Ratio	Expense Ratio	Combined Ratio
2019	$12,091,602	$7,810,786	$7,682,494	88.6%	40.4%	129.0%
2018	11,544,096	8,169,822	8,027,526	59.2	37.6	96.8
2017	11,440,376	7,811,936	7,635,386	78.4	35.4	113.8
2016	11,159,531	7,811,938	6,998,596	53.0	35.1	88.1
2015	9,765,750	6,823,552	6,836,734	50.2	34.6	84.8
2014	9,742,003	6,212,767	6,318,673	77.3	36.6	113.9

The company reported net underwriting losses in three of the five years under examination, with 2019 resulting in some of the worst losses in company history. In 2019, MWMIC endured a year of unusually high wind and hail catastrophe losses, winter weather related losses, and large fire losses in the second half of the year. The company did recover many of these losses through its reinsurance program. The investing plan also yielded some income to offset underwriting losses.

Despite the underwriting results, during the five-year period under examination, admitted assets increased 30.0%, premiums earned increased 21.6%, and surplus increased by 21.9%. The growth in premium was attributable to rate increases and increased policy count from writing new policies as well as the merger with Calumet Equity Mutual Insurance Company in 2017. The policies in-force at year-end 2014 was 8,450 and had increased to 10,936 policies in-force at year-end 2019. While underwriting initiatives, combined with rate increases, are designed to improve operating results, the company's concentration of risks remains within several counties in Wisconsin and will continue to be subject to concentrated storm and weather activity in this market.

The company's expense ratio has increased from 36.6% to 40.4% over the last five years due to several factors including increased claims adjusting expense in high catastrophe loss years, an ongoing loss control re-inspection program, computer software and systems related expenses, and the extra expense of maintaining two offices after the merger with Calumet Equity Mutual Insurance Company. There was additional expense for formulating and releasing the auto products such as setting up services and forms and creating a second processing system for the auto line. The company has undertaken underwriting and expense reduction initiatives to improve results including completing a re-inspection and re-underwriting project of policies gained from the merger, to identify underpriced risks, and is also reviewing agent performance and terminating inefficient agents.

Reconciliation of Surplus per Examination

No adjustments were made to surplus as a result of the examination. The amount of surplus reported by the company as of December 31, 2019, is accepted.

VII. SUMMARY OF EXAMINATION RESULTS

Compliance with Prior Examination Report Recommendations

There were six specific comments and recommendations in the previous examination report. Comments and recommendations contained in the last examination report and actions taken by the company are as follows:

1. Cash Disbursements—It is recommended that the company adhere to its policy requiring two signatures on each check disbursement.

   Action—Compliance.

2. Investments—It is recommended that the company have the custodian revise the custodial agreement to include the guideline provisions contained in the NAIC's *Financial Condition Examiners' Handbook.*

   Action— Compliance.

3. Conflict of Interest Statements—It is recommended that the company adhere to its policy of having directors, officers, and key employees sign conflict of interest statements and disclose any conflicts, and to retain the signed statements at the company where they can be produced within a reasonable time.

   Action— Compliance.

4. Audit Engagement—It is recommended that the company enter into future audit engagements with independent certified public accountants that are in compliance with all requirements under s. Ins 50.08 (1), Wis. Adm. Code.

   Action— Compliance.

5. Fidelity Bond—It is recommended that the company increase its bond amount at least to the minimum suggested level of $900,000 per the NAIC guidelines.

   Action— Compliance.

6. Disaster Recovery Plan—It is recommended that the company conduct a test of the disaster recovery plan on a regular basis.

   Action— Partial Compliance; see comments in the "Summary of Current Examination Results."

Summary of Current Examination Results

This section contains comments and elaboration on those areas where adverse findings were noted or where unusual situations existed. Comment on the remaining areas of the company's operations is contained in the examination work papers.

Disaster Recovery Plan

The examination revealed that the company has an adequate Disaster Recovery and Business Continuity plan. The plan was tested once in the last five years and demonstrated to be effective. However, the company has not developed a regular schedule to test the plan, nor has it documented the results of the testing that was done. Regular testing and documentation of such plans demonstrate that the company is prepared and would be able to find and implement the disaster recovery plan if needed. It is recommended that the company document the Disaster Recovery and Business Continuity plan testing that it intends to do on a regular basis. These tests should happen no less than every other year, and the results should be documented along with any changes needed as a result of the testing.

VIII. CONCLUSION

The company reported net underwriting losses in three of the five years under examination, with 2019 resulting in some of the worst losses in company history. MWMIC's reinsurance program helped contain damages from unusually high wind and hail catastrophe losses, a large number of fire losses, and winter weather related losses reported in 2019. Despite the underwriting results, during the five-year period under examination, admitted assets increased 30.0%, premiums earned increased 21.6%, and surplus increased by 21.9%. The growth in premium was mostly attributable to increased policy count and the merger with Calumet Equity Mutual Insurance Company. The investing plan has yielded some income to offset underwriting losses. There was one significant change in the company's products since the previous examination: the company started to offer an auto line of insurance in 2019. The examination determined the company was in compliance with five of the recommendations made by the previous examination and was partially in compliance with the remaining one recommendation.

The current examination resulted in one recommendation. No adjustments were made to surplus as a result of the examination. The amount of surplus reported by the company as of December 31, 2019, is accepted.

IX. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 23 - Disaster Recovery Plan—It is recommended that the company document the Disaster Recovery and Business Continuity plan testing that it intends to do on a regular basis. These tests should happen no less than every other year, and the results should be documented along with any changes needed as a result of the testing.

X. ACKNOWLEDGMENT

The courtesy and cooperation extended during the course of the examination by the officers and employees of the company are acknowledged.

In addition to the undersigned, the following representatives of the Office of the Commissioner of Insurance, State of Wisconsin, participated in the examination:

Name	Title
Jeffrey Boyd	Insurance Financial Examiner
David Jensen, CFE	IT Specialist
Terry Lorenz, CFE	Quality Control Specialist
Jerry DeArmond, CFE	Reserve Specialist

Respectfully submitted,

James R. Lindell

James R. Lindell
Examiner-in-Charge

XI. SUBSEQUENT EVENTS

On March 11, 2020, the World Health Organization declared coronavirus disease (COVID-19) a pandemic. As of the date of this report, there is still significant uncertainty remaining on the effects that the pandemic will have on the company, insurance industry, and economy at large. The examination's review of the impact to the company through the date of this report noted that there has not been a significant impact to the company overall; however, due to the various uncertainties with the pandemic, it is unclear whether this will continue to have a minimal impact to the company or if it will escalate. The Office of the Commissioner of Insurance continues to closely monitor the impact of the pandemic on the company.