Report of the Examination of

Peak Property and Casualty Insurance Corporation

Stevens Point, Wisconsin

As of December 31, 2018

TABLE OF CONTENTS

State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

Tony Evers, *Governor*
Mark V. Afable*, Commissioner*

Wisconsin.gov

125 South Webster Street • P.O. Box 7873
Madison, Wisconsin 53707-7873
Phone: (608) 266-3585 • Fax: (608) 266-9935
ociinformation@wisconsin.gov
oci.wi.gov

April 3, 2020

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:

PEAK PROPERTY AND CASUALTY INSURANCE CORPORATION
Stevens Point, Wisconsin

and this report is respectfully submitted.

I. INTRODUCTION

The previous examination of Peak Property and Casualty Insurance Corporation (Peak or the company) was conducted in 2014 as of December 31, 2013. The current examination covered the intervening period ending December 31, 2018, and included a review of such 2019 and 2020 transactions as deemed necessary to complete the examination.

The examination of the company was conducted concurrently with the examination of affiliated companies domiciled in Illinois, New York, and Texas; with Wisconsin acting in the capacity as the lead state for the coordinated examination. Representatives of Illinois, New York, and Texas participated in the examination, and their work was reviewed and relied on where deemed appropriate.

The examination was conducted using a risk-focused approach in accordance with the National Association of Insurance Commissioners (NAIC) *Financial Condition Examiners Handbook*. This approach sets forth guidance for planning and performing the examination of an insurance company to evaluate the financial condition, assess corporate governance, identify current and prospective risks (including those that might materially affect the financial condition, either currently or prospectively), and evaluate system controls and procedures used to mitigate those risks.

All accounts and activities of the company were considered in accordance with the risk-focused examination process. This may include 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.

Independent Actuary's Review

An independent actuarial firm was engaged under a contract with the Office of the Commissioner of Insurance. The actuary reviewed the adequacy of the company’s loss and loss adjustment expense reserves. The actuary’s results were reported to the examiner-in-charge. As deemed appropriate, reference is made in this report to the actuary’s conclusion.

II. HISTORY AND PLAN OF OPERATION

The company was incorporated in North Carolina on August 16, 1985, as General Electric Residential Mortgage Corporation, and commenced business on August 29, 1985. The company's current name was adopted on July 10, 1991.

On November 16, 1993, the company was acquired from GE Capital Mortgage Corporation, a Delaware corporation, by Guaranty National Insurance Company (GNIC), an insurance company domiciled in Colorado, and became a wholly owned subsidiary of GNIC. As part of the acquisition, the company redomiciled from North Carolina to Colorado.

With the approval of the Colorado Division of Insurance and other concerned jurisdictions, Royal & Sun Alliance Insurance Group plc (RSA) purchased Orion Auto, Inc., and all its subsidiaries including GNIC and its subsidiaries on November 16, 1999. The direct ownership of Peak was subsequently transferred from GNIC to Viking Insurance Company of Wisconsin (Viking), an affiliate, in May 2005

On November 1, 2005, Sentry Insurance a Mutual Company (Sentry Insurance) acquired 100% indirect ownership of Peak in connection with the acquisition of Viking from RSA pursuant to a stock purchase agreement. On December 15, 2006, Peak redomesticated from the state of Colorado to the state of Wisconsin.

In 2018, the company wrote direct premium in the following states:

Florida	$109,753,412	39.8%
North Carolina	103,879,010	37.6
All others	62,535,209	22.6
Total	$276,167,631	100.0%

The company is licensed in the District of Columbia and all states, except California, Illinois, Michigan, New Jersey, and New York.

The following table is a summary of the net insurance premiums written by the company in 2018. 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
Private passenger auto liability	$202,248,053	$0	$202,248,053	$0
Auto physical damage	73,919,578	0	73,919,578	0
Total All Lines	$276,167,631	$0	$276,167,631	$0

The Sentry Insurance Group consists of 12 property and casualty insurance companies and three wholly owned life insurance subsidiaries. The property and casualty coverage is categorized into the following business units:

Business Unit	Coverage
National Accounts	Casualty lines for larger, sophisticated risks.
Direct Writer	Property, casualty, life, and annuity products for a wide variety of dealers and manufacturing businesses. Previously broken into the Standard Business Product and Dealer Operations business units. Sold through 170 direct writing agents who sell exclusively for the Sentry Insurance Group.
Transportation	Commercial lines for trucking operations of all sizes, particularly auto and cargo in fleets of less than 1,000 power units. Sold primarily through independent agents and a small number of direct writers.
Regional	Commercial lines for small- and middle-market businesses. Currently operating in the Southeast, Midwest, Northeast, Pacific, and Northwest regions.
Hortica	Commercial lines for members of the horticulture industry. Sold through direct writers and independent agents.
Dairyland Auto	Personal auto coverage for non-traditional auto customers, typically on a short-term basis. Sold through independent agents and the Dairyland website and call center.
Dairyland Cycle	Personal coverage for motorcycle owners. Sold through independent agents and the Harley-Davidson website and call center.

Peak directly underwrites business in the Dairyland Auto business unit. 100% of business written is ceded to Peak’s parent company, Viking.

III. MANAGEMENT AND CONTROL

Board of Directors

The board of directors consists of five members who are elected annually. Each member is an officer of Sentry Insurance. Officers are elected at annual board meetings and are to hold those positions until the earlier of their resignation or removal by the board of directors. As inside directors, they receive no compensation specific to their service on the board.

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

Name and Residence	Principal Occupation	Term Expires
Kip J. Kobussen Plover, Wisconsin	Chief Legal and Compliance Officer Sentry Insurance a Mutual Company	2019
Jim E. McDonald Stevens Point, Wisconsin	Chief Investment Officer Sentry Insurance a Mutual Company	2019
Pete G. McPartland Stevens Point, Wisconsin	Chairman of the Board, President, Chief Executive Officer Sentry Insurance a Mutual Company	2019
Todd M. Schroeder Stevens Point, Wisconsin	Chief Financial Officer, President of Life and Annuities Sentry Insurance a Mutual Company	2019
Michael J. Williams Stevens Point, Wisconsin	Chief Actuary and Risk Officer Sentry Insurance a Mutual Company	2019

Officers of the Company

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

Name	Office	2018 Compensation*
Peter G. Anhalt	President	$340,741
Mike J. Williams	Vice President	123,848
Kip J. Kobussen	Secretary	45,327
Todd M. Schroeder	Treasurer	30,388

* Compensation included salary, bonus, and all other compensation. Compensation reported is the portion of the individual's total compensation that is allocated to Sentry Insurance. Most officer's compensation is allocated among several entities in the group.

Committees of the Board

The company's bylaws allow for the formation of certain committees by the board of directors. There were no committees appointed by the board at the time of the examination. The committees of the ultimate controlling party, Sentry Insurance, govern the company.

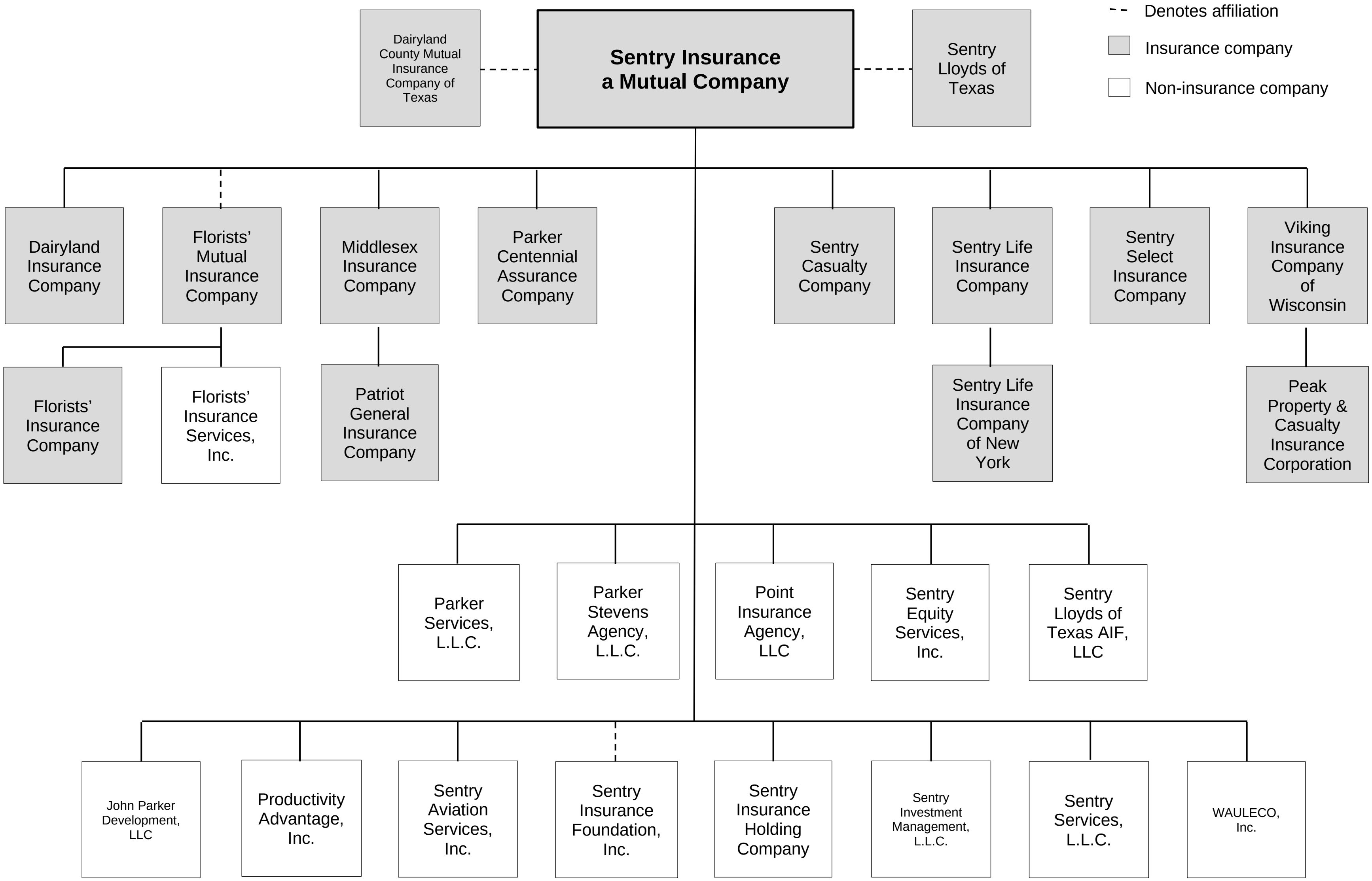
IV. AFFILIATED COMPANIES

Peak is a subsidiary of Viking, its immediate parent, and Sentry Insurance, the ultimate parent of a holding company system (the Sentry Insurance Group). As of December 31, 2018, the Sentry Insurance Group consisted of 15 insurers and 14 noninsurance entities. Dairyland County Mutual Insurance Company of Texas and Sentry Lloyds of Texas are affiliated through common management, and Florists' Mutual Insurance Company is affiliated through a mutual affiliation agreement. A brief description of the entities that are directly affiliated with Peak or have services or administration agreements with it follows the organizational chart. An examination report of Sentry Insurance a Mutual Company completed concurrently with this report includes a description of all affiliates in the holding company.

On July 7, 2019, Sentry Insurance incorporated a new company, Dairyland National Insurance Company (Dairyland National). It is not presented on the organizational chart below due to being formed and operating entirely outside of the examination period.

On November 14, 2019, the Sentry Insurance board passed a resolution to reorganize the Sentry Insurance Group into a mutual holding structure, pursuant to s. 644.07 (2), Wis. Stat. As part of the proposed reorganization, Sentry Insurance will form two new holding company entities: a mutual holding company, Sentry Mutual Holding Company (Sentry Mutual) and a wholly owned subsidiary of Sentry Mutual, Sentry Holdings, Inc. Sentry Insurance would then convert to a stock insurance company under the new name Sentry Insurance Company. The proposed reorganization was subject to the approval of the Office of the Commissioner of Insurance (OCI) and policyholders as required by ss. 644.07 (7) and 644 (8), Wis. Stat.

On November 20, 2019, Sentry Insurance submitted documents to OCI proposing the restructuring of the Sentry Insurance Group as a mutual insurance holding company structure. OCI is reviewing the proposed transaction. The mutual holding structure conversion is not presented on the organizational chart below due to being submitted after the examination period and not yet being approved by OCI.


Denotes affiliation
Insurance company
Non-insurance company
Dairyland County Mutual Insurance Company of Texas
Sentry Insurance a Mutual Company
Sentry Lloyds of Texas
Dairyland Insurance Company
Florists' Mutual Insurance Company
Middlesex Insurance Company
Parker Centennial Assurance Company
Sentry Casualty Company
Sentry Life Insurance Company
Sentry Select Insurance Company
Viking Insurance Company of Wisconsin
Florists' Insurance Company
Florists' Insurance Services, Inc.
Patriot General Insurance Company
Sentry Life Insurance Company of New York
Peak Property & Casualty Insurance Corporation
Parker Services, L.L.C.
Parker Stevens Agency, L.L.C.
Point Insurance Agency, LLC
Sentry Equity Services, Inc.
Sentry Lloyds of Texas AIF, LLC
John Parker Development, LLC
Productivity Advantage, Inc.
Sentry Aviation Services, Inc.
Sentry Insurance Foundation, Inc.
Sentry Insurance Holding Company
Sentry Investment Management, L.L.C.
Sentry Services, L.L.C.
WAULECO, Inc.

Insurance Subsidiaries and Affiliates

Sentry Insurance a Mutual Company

Sentry Insurance a Mutual Company (Sentry Insurance) is the parent company of the Sentry Insurance Group and owns all the issued and outstanding stock of Viking. Sentry Insurance is licensed in all 50 states, the District of Columbia, Puerto Rico, and Canada. On its direct business, Sentry Insurance writes business in the National Accounts, Direct Writer, Regional, and Dairyland Auto business units. As of December 31, 2018, the statutory basis financial statements of Sentry Insurance reported assets of $8,669,418,968, liabilities of $3,252,632,840, surplus of $5,416,786,128, and net income of $237,604,036. Sentry Insurance was examined concurrently with Peak as of December 31, 2018, and the results of that examination are expressed in a separate report.

Viking Insurance Company of Wisconsin

Viking Insurance Company of Wisconsin (Viking) is a property and casualty insurer incorporated on August 10, 1971, as Viking Insurance Company in the state of Wisconsin, and in 1973 its name was changed to that currently used. The company was originally controlled by the directors, their families, and employees through an employee stock ownership trust. In 1982, all of the outstanding stock was purchased by Crum and Forster, Inc., a New York holding company and a subsidiary of the Xerox Corporation. As a result of an organization restructuring in 1993, Viking's stock was contributed to a newly formed holding company, Viking Insurance Holdings, Inc. (Viking Holdings), a Delaware corporation, which was a wholly owned subsidiary of Talegen Holdings, Inc., a Delaware corporation. In 1995, Guaranty National Corporation (now Orion Auto, Inc.) acquired Viking Holdings. In 1997, Viking became a subsidiary of Orion Auto, Inc., after Viking Insurance Holdings, Inc., was dissolved. In 1999, Viking redomesticated from the state of Wisconsin to the state of Colorado and on November 16, 1999, Royal & Sun Alliance Insurance Group plc purchased Orion Auto, Inc., and all of its subsidiaries. On November 1, 2005, Sentry Insurance acquired control of Viking and its subsidiary, Peak, from Royal & Sun Alliance USA, Inc. On December 15, 2006, Viking redomesticated to Wisconsin.

Viking is licensed in 47 states and the District of Columbia. It was acquired primarily to expand the Sentry Insurance Group's presence as a nonstandard auto insurance writer and to obtain a sophisticated auto policy underwriting system. On its direct business, Viking specializes in nonstandard auto and motorcycle business. The company also assumes 100% of the business of its subsidiary, Peak. Viking has a 5% participation in the affiliated pooling agreement. As of December 31, 2018, the statutory basis audited financial statements of Viking reported assets of $508,404,884, liabilities of $337,137,718, surplus of $171,267,166, and net income of $5,187,229. Viking was examined concurrently with Peak as of December 31, 2018, and the results of that examination are expressed in a separate report.

Noninsurance Subsidiaries and Affiliates

Sentry Investment Management, L.L.C.

Sentry Investment Management, L.L.C. (SIML), a Delaware corporation organized on June 13, 1969, manages the investment portfolios of Sentry Insurance and its affiliates, subject to the direction of their respective boards of directors. In 2007, the corporation changed its status to a limited liability corporation. As of December 31, 2018, SIML's unaudited financial statements reported assets of $200,945, liabilities of $59,345, and stockholder's equity of $141,600. Operations for 2018 produced no net income or loss. SIML is a wholly owned subsidiary of Sentry Insurance.

Affiliated Agreements

Peak has no employees of its own and all of its operations are conducted by employees of its parent organization, Sentry Insurance, in accordance with the business practices and internal controls of that organization. In addition to ongoing common management and control by this upstream affiliate, the company's operations are affected by various written agreements with Sentry Insurance Group affiliates. Reinsurance agreements are described in section V of the report titled "Reinsurance." A summary of the other agreements and undertakings follows.

Investment Advisory Agreement

Effective October 31, 1991, Sentry Insurance and certain named affiliates entered into an investment advisory agreement with Sentry Investment Management, L.L.C. This contract was amended and restated as of January 1, 2008, and as of September 12, 2011. Under this agreement, SIML is employed to manage and direct the investment and reinvestment of the assets of Sentry Insurance and certain named affiliates, subject to the control of those companies' board of directors. SIML agrees to comply with the companies' articles, bylaws, investment policies, and all applicable federal or state laws. SIML charges the companies a monthly fee computed as follows, annually not to exceed on average 25 basis points of the cash and invested assets reported on the companies' statutory annual statements:

One-twelfth (1/12) of an amount equal to the sum of (a), (b), and (c)

(a) Common stocks, excluding those of affiliates:
0.50% ($5.00 per $1,000) of market value;

(b) Bonds and preferred stocks, excluding those of affiliates:
0.15% ($1.50 per $1,000) of market value; and

(c) All other assets, excluding those of affiliates:
0.75% ($7.50 per $1,000) of market value

In addition, for any investment advisory services provided by SIML at the request of the companies, SIML is to be reimbursed for the actual costs of rendering such services. Settlements are to be made within 60 days of the end of the month.

The contract may be terminated by any of the parties with 60 days' written notice.

Joint Investment Agreement

Effective October 1, 1996, the company entered into an amended and restated joint investment agreement with various affiliates to establish the Sentry Liquid Asset Partnership (SLAP), a joint venture organized pursuant to the Wisconsin Uniform Partnership Act. This agreement has been amended and restated to add or delete companies as needed. Sentry Insurance is designated as the managing partner, though the agreement permits a change by a majority decision of the participants. A participant may withdraw from the joint venture upon the delivery of a written notice to the managing partner. The joint venture shall dissolve at such time as only one participant remains in the joint venture. The terms of this agreement are continuous;

however, all parties to the agreement are required to review and negotiate the agreement no less than once every three years.

The business of the joint venture consists of investing and reinvesting funds contributed by the members in short-term obligations of banks, corporations, and the U.S. federal government with a maximum duration of 12 months. It functions in a manner analogous to a short-term bond mutual fund. Investment advisory services are provided by Sentry Investment Management, L.L.C. This office has directed all Wisconsin-domiciled Sentry companies to report their respective balances in SLAP as a one-line entry on Schedule DA – Part 1 (Short-Term Investments) and Schedule E- Part 2 (Cash Equivalents). In 2018, Peak reported no SLAP short-term investments and $11,832 in SLAP money market mutual funds. Peak received $31,248 interest from the SLAP money market mutual funds.

Tax Allocation Agreement

On February 22, 1983, the Sentry Insurance board of directors adopted a written federal income tax allocation policy for the purpose of filing federal income tax returns on a consolidated basis. This agreement has been amended and restated to add or delete companies as needed. The latest amended and restated agreement is effective March 1, 2009, and was amended to comply with requirements of the New York Circular Letter 1979-33 (relates to tax allocation agreements of New York-domestic insurers) because Sentry Life Insurance Company of New York is a party to this agreement. Under this agreement, Sentry Insurance prepares and files a consolidated U.S. federal income tax return that includes all affiliates of the holding company group. The agreement sets forth the rights and obligations of the parties to the agreement with respect to the determination and settlement of federal income tax liabilities as well as the allocation of Sentry Insurance Group’s consolidated U.S. federal income tax liability and tax benefits in accordance with a rational, systematic formula. The agreement provides for computation of tax, settlement of balances between affiliates, tax sharing, filing the return, audits and other adjustments, and other administrative requirements. The agreement calls for the settling of estimated U.S. federal tax payments within 45 days of filing of those payments. The final settlement is due within 45 days of the filing of the consolidated U.S. federal tax return. The agreement has a provision for members entering or departing the group and provides for successors.

General Expense Allocation Agreement

In 1993, the insurance companies of the Sentry Insurance Group entered into a written general expense allocation agreement. The agreement formalized the parties' consent to an accounting allocation process that had been in place since 1982. This agreement has been amended and restated to add or delete companies as needed. Under the agreed procedure, expenses are first grouped and assigned to cost pools, each of which is distinguished by one or more of four characteristics, including activity, location, profit center, and division. Expenses, once assigned to cost pools, are then allocated to specific insurance products. An expense is not assigned to a specific legal entity until after it is coded to a cost pool and then to a specific product, unless the destination (profit center, line of business, or legal entity) is known when the expense is originally recorded. Allocation at each phase of this process, outlined here in simplified form, is based on specific identification, utilization estimates developed from such criteria as premium or claim volume, time studies, or other rational means of distribution.

Intercompany Settlement Policy

The intercompany settlement policy between Sentry Insurance and its affiliates was last amended and restated effective July 1, 2014. This agreement has been amended and restated several times to add or delete companies as necessary. According to the terms of this agreement, Sentry Insurance's cash management department settles intercompany balances, in SLAP where possible, based on policies and procedures listed in the agreement for monthly and annual settlements. Other settlements under the agreement include reinsurance balances, which are to be settled according to the terms contained in the reinsurance agreements, and income tax related balances, which are to be settled in accordance with the terms outlined in the intercompany tax allocation agreement mentioned previously. There is also a clause that establishes procedures for those parties that do not have adequate funds available to settle intercompany debt.

Premium Collection Agreement

Effective August 23, 2002, the company entered into an amended and restated premium collection agreement with various affiliates. This agreement has been amended and restated to add companies as needed. According to this contract, Sentry Insurance is to provide the companies with premium collection services for their nonstandard automobile insurance business, which includes depositing the collected premium in bank accounts of each of the parties to the agreement within two business days of receipt of those premiums. Sentry Insurance does not charge a direct fee for providing such services. Sentry Insurance may terminate the agreement and the affiliates may withdraw from the agreement upon 30 days' written notice.

Service Agreement

Sentry Insurance has established a service agreement with Peak, effective November 1, 2005. Under this agreement Sentry Insurance is to provide essentially all services required for Peak's business operations. Expenses relating to the services provided under this agreement are to be allocated to the company by Sentry Insurance through the general expense allocation agreement (described earlier in this section of the report). Services may be terminated by either party by 30 days' written notice or at any time by mutual consent.

V. REINSURANCE

The company's reinsurance portfolio and strategy are described below. The company had numerous active and inactive ceded and assumed reinsurance treaties and arrangements in force at the time of this examination. All contracts reviewed by examiners contained proper insolvency provisions. Certain property and casualty companies in the Sentry Insurance Group participate in a few voluntary and involuntary reinsurance arrangements, serving predominantly the auto and worker's compensation markets, administered by individual states or by national organizations. The largest assuming reinsurance agreements are from the National Workers Compensation Reinsurance Association and Commonwealth Automobile Reinsurers (Massachusetts). The ceding reinsurance agreements are to a variety of state mine subsidence, catastrophic auto, and worker's compensation funds. A review of these arrangements indicated that all contracts have provisions deemed appropriate by the governmental authorities that establish and administer them. Significant treaties and arrangements are summarized as follows:

Affiliated Ceding Contracts

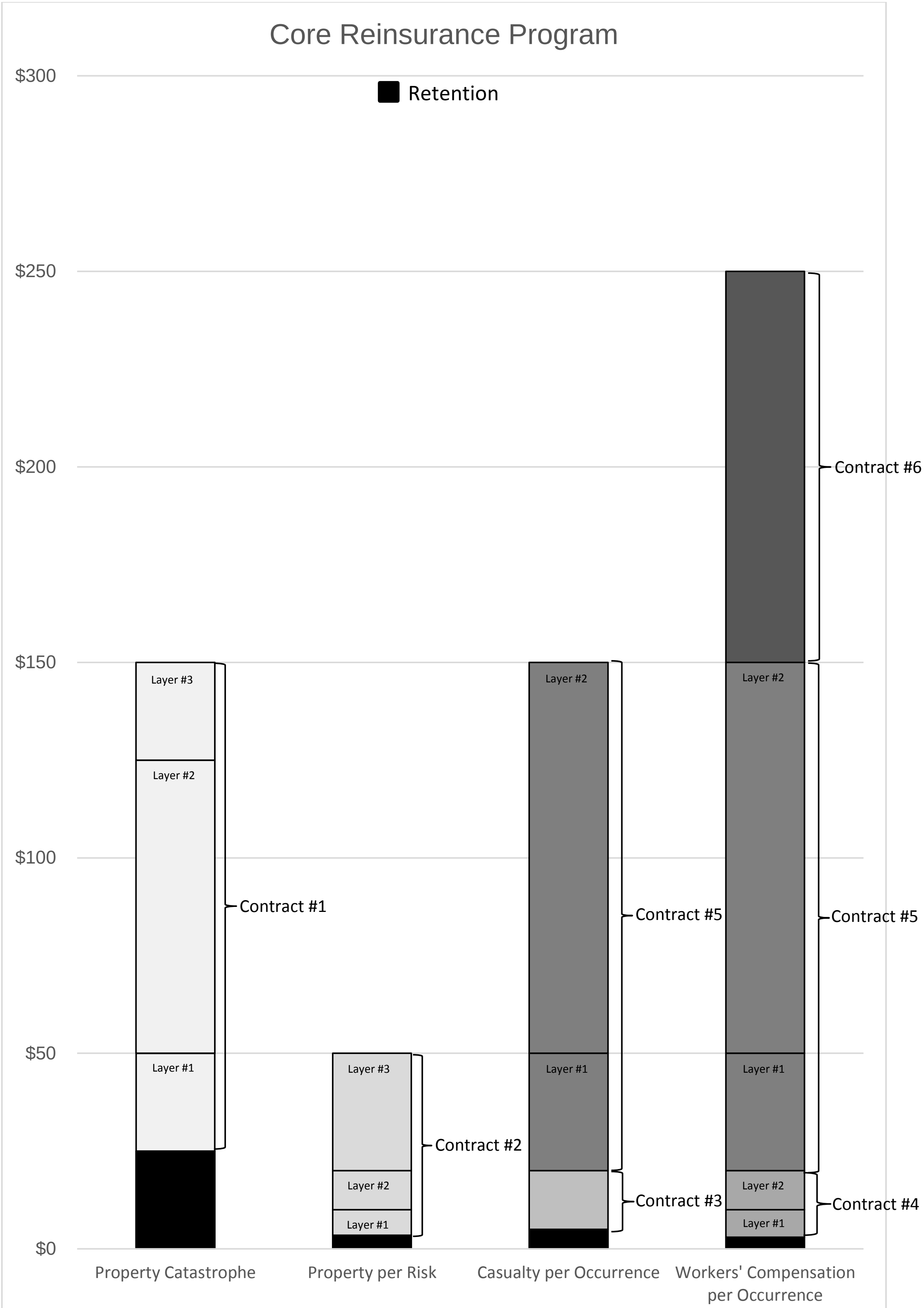
Peak has a 100% quota share agreement with its parent, Viking.

1.	Type:	100% Quota Share
	Reinsured:	Peak Property & Casualty Insurance Corporation
	Scope:	All business directly written by the company after cessions to nonaffiliated reinsurers
	Retention:	None
	Coverage:	100% of net losses, net loss adjustment expenses, and any or all other expenses incurred by or assessed against the reinsured arising from business covered by this contract
	Premium:	100% of all net premiums on business ceded pursuant to this treaty
	Ceding commission:	Ceding commissions equal to the actual underwriting expenses.
	Effective date:	April 1, 2005, amended effective January 1, 2012, and is continuous
	Termination:	Either party may terminate this agreement at the end of a five-year renewal term by giving 12 months' written notice. Termination may be affected by the reinsurer with 15-day written notice in the event the reinsured defaults on payment of premium due.

In effect, the reinsured does not retain any net premiums written, net premiums earned, net losses incurred, loss adjustment expenses, or underwriting expenses under this contract and, therefore, cannot incur an underwriting profit or loss as long as this treaty is in force.

Nonaffiliated Ceding Contracts

The major nonaffiliated ceding contracts including a core reinsurance structure to cover most risk exposures and two quota share agreements to cover specific exposures are described below. A chart included on the next page summarizes the core reinsurance program for the Sentry Insurance Group. (Dollar amounts are in millions.)


Core Reinsurance Program
Retention
$300
$250
$200
$150
$100
$50
$0
Layer #3
Layer #2
Layer #1
Contract #1
Layer #3
Layer #2
Layer #1
Contract #2
Layer #2
Layer #1
Contract #5
Contract #3
Layer #2
Layer #1
Contract #6
Contract #5
Layer #2
Layer #1
Contract #4
Property Catastrophe
Property per Risk
Casualty per Occurrence
Workers' Compensation per Occurrence

1. Type: Property Catastrophe Excess of Loss

Reinsurer: The brokered reinsurers, and their respective participation by layer, include the following.

Subscribing Reinsurer	Layer 1	Layer 2	Layer 3
Allied World Assurance Company, Ltd.	0.00%	4.00%	0.00%
Ariel Re BDA Limited	5.00	5.00	0.00
Aspen Bermuda, Limited	10.00	10.00	0.00
China Property & Casualty Reinsurance Company Limited	4.00	3.00	0.00
Dual Commercial LLC	2.00	2.00	0.00
Employers Mutual Casualty Company	2.25	2.25	0.00
Fidelis Insurance Bermuda Limited	2.00	5.00	0.00
Hannover Re (Bermuda), Ltd.	10.00	10.00	0.00
Mapfre Re Compania De Reaseguros SA	8.00	8.00	0.00
MS Amlin AG Bermuda Branch	2.00	6.00	0.00
Odyssey Reinsurance Company	3.50	3.50	0.00
Quatar Reinsurance Company Limited	4.00	3.00	0.00
QBE Reinsurance Corporation	7.50	7.50	0.00
R+V Versicherung	5.00	5.00	0.00
Underwriters at Lloyd's, London	34.75	25.75	100.00
Total Subscribing Reinsurers	100.00%	100.00%	100.00%

Scope: Property business with certain named exclusions

Retention: Retention is $25 million for the first excess layer, $50 million for the second excess layer, and $125 million for the third excess layer.

Coverage (in millions): The contract provides the following coverage.

Coverage Type	Layer 1	Layer 2	Layer 3
Per Loss Occurrence	$25	$ 75	$25
Term Limit	50	150	50

Commissions: None

Effective date: January 1, 2019, through January 1, 2020

Termination: The company may terminate the agreement on a cut-off basis by giving the reinsurer 10 calendar days prior written notice in the event of circumstances listed in the Special Termination article.

2. Type: Property Per Risk Excess of Loss

Reinsurer: The brokered reinsurers, and their respective participation by layer, include the following.

Subscribing Reinsurer	Layer 1*	Layer 2	Layer 3
Arch Reinsurance Company	0.0%	0.0%	12.5%
Ariel Re BDA Limited	3.0	3.0	3.0
Aspen Insurance UK Limited	7.5	16.0	10.0
Dual Commercial LLC	0.0	10.0	2.5
Employers Mutual Casualty Company	2.5	5.0	5.0
Fidelis Insurance Bermuda Limited	0.0	1.5	0.0
General Reinsurance Corporation (Direct)	0.0	0.0	50.0
General Reinsurance Corporation	0.0	3.0	0.0
Hannover Ruck SE	30.0	22.5	17.0
Munich Reinsurance Americas, Inc.	12.5	12.5	0.0
Mutual Reinsurance Bureau	22.0	14.0	0.0
Odyssey Reinsurance Company	0.0	7.0	0.0
Partner Reinsurance Company of the U.S.	2.5	2.5	0.0
Transatlantic Reinsurance Company	0.0	3.0	0.0
Total Subscribing Reinsurers	80.0%	100.0%	100.0%

* Sentry Insurance has retained 20% of the first excess layer as a copay.

Scope: Property business with certain named exclusions

Retention: Retention is $3.5 million for the first excess layer, $10 million for the second excess layer, and $20 million for the third excess layer.

Coverage (in millions): The contract provides the following coverage.

Coverage Type	Layer 1	Layer 2	Layer 3
Per Risk Limit	$ 6.5	$10.0	$30.0
Per Loss Occurrence	13.0	10.0	30.0
Term Limit	N/A	20.0	60.0
Term Limit – Terrorism	6.5	10.0	30.0

Commissions: None

Effective date: January 1, 2019, through January 1, 2020

Termination: The company may terminate this agreement on a cut-off basis by giving the reinsurer written notice in the event of circumstances listed in the Special Termination article.

3. Type: Casualty Excess of Loss

Reinsurer: The brokered reinsurers, and their respective participation by layer, include the following.

Subscribing Reinsurer	Allocation
Allied World Insurance Company	7.5%
Brit Global Specialty USA	2.5
General Reinsurance Corporation	6.5
Hannover Ruck SE	20.0
Mutual Reinsurance America, Inc.	22.5
Mutual Reinsurance Bureau	18.5
Partner Reinsurance Company of the U.S.	2.5
QBE Reinsurance Corporation	2.5
Transatlantic Reinsurance Company	7.5
Underwriters at Lloyd's, London	10.0
Total Subscribing Reinsurers	100.0%

Scope: Casualty business

Retention: Retention is $5 million.

Coverage (in millions): The contract provides the following coverage.

Coverage Type	Amount
Per Loss Occurrence	$15
Term Limit	75
Term Limit – Terrorism	15

Commissions: None

Effective date: January 1, 2019, through January 1, 2020

Termination: The company may terminate this agreement on a cut-off basis by giving the reinsurer written notice in the event of circumstances listed in the Special Termination article.

4. Type: Workers' Compensation Excess of Loss

Reinsurer: The brokered reinsurers, and their respective participation by layer, include the following.

Subscribing Reinsurer	Layer 1	Layer 2
Brit Global Specialty USA	0.0%	5.0%
Hannover Ruck SE	22.5	22.5
Mutual Reinsurance Bureau	10.0	10.0
Partner Reinsurance Company of the U.S.	0.0	10.0
QBE Reinsurance Corporation	10.0	0.0
Safety National Casualty Corporation	20.0	17.0
Transatlantic Reinsurance Company	20.0	14.0
Underwriters at Lloyds, London	17.5	21.5
Total Subscribing Reinsurers	100.0%	100.0%

Scope: Workers' compensation, including employers' liability

Retention: Retention is $3 million for the first excess layer and $5 million for the second excess layer

Coverage:	The contract provides the following coverage.

Coverage Type	Layer 1	Layer 2
Per Occurrence Limit	$2	$ 5
Term Limit	Unlimited	15
Term Limit – Runoff	Unlimited	20
Term Limit – Terrorism	2	5
Term Limit – Runoff & Terrorism	4	10

Commissions:	None
Effective date:	January 1, 2019, through January 1, 2020
Termination:	The company may terminate this agreement on a cut-off basis by giving the reinsurer written notice in the event of circumstances listed in the Special Termination article.

5.	Type:	Multiple Line Clash and Contingency Excess of Loss
	Reinsurer:	The brokered reinsurers, and their respective participation by layer, include the following.

Subscribing Reinsurer	Layer 1	Layer 2
BGS Services (Bermuda) Limited	4.25%	4.00%
Brit Global Specialty USA	2.50	0.00
General Reinsurance Corporation	4.92	0.00
Hannover Ruck SE	20.00	10.00
Tokio Millennium RE AG, Bermuda Branch	0.00	5.00
Transatlantic Reinsurance Company	10.00	0.00
Underwriters at Lloyd's, London	58.33	81.00
Total Subscribing Reinsurers	100.00%	100.00%

Scope:	All property and casualty business
Retention:	Retention is $20 million for the first excess layer and $50 million for the second excess layer.
Coverage (in millions):	The contract provides the following coverage.

Coverage Type	Layer 1	Layer 2
Per Event Limit	$30	$100
Term Limit	60	200
Term Limit – Terrorism	30	100

Commissions:	None
Effective date:	January 1, 2019, through January 1, 2020
Termination:	The company may terminate this agreement on a cut-off basis by giving the reinsurer written notice in the event of circumstances listed in the Special Termination article.

6. Type: Workers' Compensation Catastrophe Excess of Loss

Reinsurer: The brokered reinsurers, and their respective participation by layer, include the following.

Subscribing Reinsurer	Allocation
Allied World Insurance Company	6.00%
BGS Services (Bermuda) Limited	3.00
Hannover RE (Bermuda) Ltd.	5.00
IOA RE, Inc.	3.00
Munich Reinsurance America, Inc.	10.00
Odyssey Reinsurance Company	2.00
Tokio Millennium RE AG, Bermuda Branch	3.75
Underwriters at Lloyd's, London	67.25
Total Subscribing Reinsurers	100.00%

Scope: Workers' compensation, including employers' liability

Retention: Retention is $150 million.

Coverage (in millions): The contract provides the following coverage.

Coverage Type	Amount
Per Occurrence Limit	$100
Term Limit – All Occurrences	200
Term Limit – Terrorism	100

Commissions: None

Effective date: January 1, 2019, through January 1, 2020

Termination: The company may terminate this agreement on a cut-off basis by giving the reinsurer written notice in the event of circumstances listed in the Special Termination article.

Nonaffiliated Assuming Contracts

Sentry Insurance ceased all assumption activities with nonaffiliated companies prior to 1986. There are, however, reinsurance assumed treaties in runoff. Many of these contracts were originally entered into by affiliates and were assumed by the company during its efforts to consolidate its holding company system. The reinsurance assumed treaties in runoff have a broad range of underlying risks, including risks located overseas. Types of contracts include catastrophe, excess of loss, pro rata, and facultative. Assumed reinsurance long-tail exposures tend to be environmental and asbestos, and medium-tail risks such as general liability, auto liability, and workers' compensation. One difficulty encountered with respect to international exposures is that the laws of some of the countries in which risks are located do not allow for complete release of the responsible parties, so claims can remain open for periods much longer than typical in the United States or can be reopened many years after the settlement is believed to have been final.

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, 2018, 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.

Peak Property and Casualty Insurance Corporation
Assets
As of December 31, 2018

	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	$38,962,996	$	$38,962,996
Cash, cash equivalents, and short-term investments	2,171,592		2,171,592
Receivables for securities	12,872		12,872
Investment income due and accrued	472,045		472,045
Reinsurance:			
Amounts recoverable from reinsurers	2,223,987		2,223,987
Current federal and foreign income tax recoverable and interest thereon	171,383		171,383
Write-ins for other than invested assets:			
Equities and deposits in pools and associations	79,536		79,536
Miscellaneous A/R	845		845
Prepaid expenses	22,116	22,116	
Total Assets	$44,117,371	$22,116	$44,095,255

Peak Property and Casualty Insurance Corporation
Liabilities, Surplus, and Other Funds
As of December 31, 2018

Net deferred tax liability		$ 120,803
Ceded reinsurance premiums payable (net of ceding commissions)		2,288,579
Amounts withheld or retained by company for account of others		9,412
Payable to parent, subsidiaries, and affiliates		877,807
Write-ins for liabilities:		
A/P - other		1,774,432
Total Liabilities		5,071,033
Common capital stock	$ 3,000,000	
Surplus notes	11,000,000	
Gross paid in and contributed surplus	3,447,823	
Unassigned funds (surplus)	21,576,399	
Surplus as Regards Policyholders		39,024,222
Total Liabilities and Surplus		$44,095,255

Peak Property and Casualty Insurance Corporation
Summary of Operations
For the Year 2018

Investment Income		
Net investment income earned	$427,605	
Net realized capital gains (losses)	(21,335)	
Net investment gain (loss)		$406,271
Other Income		
Net income (loss) before dividends to policyholders and before federal and foreign income taxes		406,271
Net income (loss) after dividends to policyholders but before federal and foreign income taxes		406,271
Is Federal and foreign income taxes incurred		(15,383)
Net Income		$421,654

Peak Property and Casualty Insurance Corporation
Cash Flow
For the Year 2018

Premiums collected net of reinsurance			$(2,309,110)
Net investment income			681,544
Total			(1,627,566)
Benefit- and loss-related payments		$(5,825,636)	
Commissions, expenses paid, and aggregate write-ins for deductions		382	
Federal and foreign income taxes paid (recovered)		(97,710)	
Total deductions			(5,922,964)
Net cash from operations			4,295,398
Proceeds from investments sold, matured, or repaid:			
Bonds		$6,812,907	
Cost of investments acquired (long-term only):			
Bonds	$9,028,459		
Miscellaneous applications	12,872		
Total investments acquired		9,041,331	
Net cash from investments			(2,228,424)
Cash from financing and miscellaneous sources:			
Dividends to stockholders		(407)	
Other cash provided (applied)		(2,259,374)	
Net cash from financing and miscellaneous sources			(2,258,967)
Reconciliation:			
Net Change in Cash, Cash Equivalents, and Short-Term Investments			(191,993)
Cash, cash equivalents, and short-term investments:			
Beginning of year			2,363,585
End of Year			$2,171,592

Peak Property and Casualty Insurance Corporation
Compulsory and Security Surplus Calculation
December 31, 2018

Assets		$44,095,255
Less liabilities		5,071,033
Adjusted surplus		39,024,222
Annual premium:		
Lines other than accident and health	$16,856*	
Factor	20%	
Compulsory surplus (subject to a minimum of $2 million)		2,000,000
Compulsory Surplus Excess (Deficit)		$37,024,222
Adjusted surplus (from above)		$39,024,222
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)		$36,224,222

*This amount represents premium ceded to unauthorized reinsurers.

Peak Property and Casualty Insurance Corporation
Analysis of Surplus
For the Five-Year Period Ending December 31, 2018

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

	2018	2017	2016	2015	2014
Surplus, beginning of year	$39,101,263	$38,969,846	$38,976,818	$39,615,280	$39,084,515
Net income	421,654	504,286	493,948	905,819	729,972
Change in net deferred income tax	1,688	83,009	4,440	(239,052)	5,921
Change in nonadmitted assets	(382)	(5,878)	(5,361)	(10,496)	
Change in provision for reinsurance				205,267	(205,128)
Dividends to stockholders	(500,000)	(450,000)	(500,000)	(1,500,000)	
Surplus, End of Year	$39,024,222	$39,101,263	$38,969,846	$38,976,818	$39,615,280

Peak Property and Casualty Insurance Corporation
Insurance Regulatory Information System
For the Five-Year Period Ending December 31, 2018

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	2018	2017	2016	2015	2014
#1	Gross Premium to Surplus	708%	588%	485%	432%	448%
#2	Net Premium to Surplus	0	0	0	0	0
#3	Change in Net Premiums Written	0	0	0	0	0
#4	Surplus Aid to Surplus	9	8	7	5	5
#5	Two-Year Overall Operating Ratio	0	0	0	0	0
#6	Investment Yield	1.0*	1*	1.2*	1.6*	1.7*
#7	Gross Change in Surplus	-0	0	-0	-2	1
#8	Change in Adjusted Surplus	-0	0	-0	-2	1
#9	Liabilities to Liquid Assets	12	24	20	17	19
#10	Agents' Balances to Surplus	0	0	0	0	0
#11	One-Year Reserve Development to Surplus	0	0	0	0	0
#12	Two-Year Reserve Development to Surplus	0	0	0	0	0
#13	Estimated Current Reserve Deficiency to Surplus	0	0	0	0	0

Ratio No. 6 measures the amount of the company's net investment income as a percentage of the average amount of cash and invested assets. The exceptions are due to an $11 million surplus note Peak issued to its affiliate, Dairyland Insurance Company, in exchange for cash in 2012. The interest payments on the surplus note reduce net investment income and cause an unusually low investment yield.

Growth of Peak Property and Casualty Insurance Corporation

Year	Admitted Assets	Liabilities	Surplus as Regards Policyholders	Net Income
2018	$44,095,255	$5,071,033	$39,024,222	$421,654
2017	48,662,087	9,560,824	39,101,263	504,286
2016	46,998,734	8,028,888	38,969,846	493,948
2015	45,996,669	7,019,851	38,976,818	905,819
2014	47,510,842	7,895,562	39,615,280	729,972
2013	48,188,811	9,104,296	39,084,515	615,104

Year	Gross Premium Written	Net Premium Written	Premium Earned	Loss and LAE Ratio	Expense Ratio	Combined Ratio
2018	$276,167,631	$0	$0	N/A	N/A	N/A
2017	230,108,696	0	0	N/A	N/A	N/A
2016	189,005,888	0	0	N/A	N/A	N/A
2015	168,251,598	0	0	N/A	N/A	N/A
2014	177,375,865	0	0	N/A	N/A	N/A
2013	203,421,627	0	0	N/A	N/A	N/A

As previously discussed in Section V of this report titled “Reinsurance,” Peak cedes 100% of its net writings to Viking and therefore does not report any net premium or underwriting expenses. The company’s surplus has remained consistent at approximately $39 million during the examination period. Gross premium growth was 36% for the years under examination, falling from 2013 to 2015 before growing significantly from 2015 to 2018. This growth was driven by overall increases in the Dairyland Auto product line.

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, 2018, is accepted.

VII. SUMMARY OF EXAMINATION RESULTS

Compliance with Prior Examination Report Recommendations

There was one specific comment and recommendation in the previous examination report. Comments and recommendations contained in the last examination report and actions taken by the company are as follows:

1. Actuarial Examination—It is recommended that future actuarial reports contain updated and completed work papers and documentation with respect to the gross loss and LAE reserves.

   Action—Compliance.

Summary of Current Examination Results

There were no adverse or material examination findings as a result of the current examination of the company.

VIII. CONCLUSION

Peak's surplus has remained consistent at approximately $39 million during the five-year examination period. All of the company's net business writings are ceded to Viking, the company's direct parent, under a 100% quota share reinsurance agreement; therefore, no underwriting results were reported by Peak. Net income reported by Peak in each of the five years under examination was comprised mainly of investment income. Peak has consistently been making interest payments on an $11 million surplus note to its affiliate, Dairyland Insurance Company, since 2012.

The current examination resulted in no recommendations and no reclassifications of account balances or adjustments to surplus as reported by the company in its year-end 2018 statutory financial statements.

IX. SUMMARY OF COMMENTS AND RECOMMENDATIONS

There were no recommendations made as a result of this examination.

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
Nicholas Barsuli	Insurance Financial Examiner
Nicholas Feyen	Insurance Financial Examiner
Kenton Harrison	Insurance Financial Examiner
Thomas Hilger, AFE	Insurance Financial Examiner
Judith Michael	Insurance Financial Examiner
David Jensen, CFE	IT Specialist
Jerry DeArmond, CFE	Reserve Specialist

Respectfully submitted,

Diana M. Havitz
Examiner-in-Charge

XI. SUBSEQUENT EVENTS

On March 11, 2020, the World Health Organization (WHO) declared the spreading coronavirus (COVID-19) outbreak a pandemic. On March 13, 2020, U.S. President Donald J. Trump declared the coronavirus pandemic a national emergency in the United States. The epidemiological threat posed by COVID-19 is having disruptive effects on the economy, including disruption of the global supply of goods, reduction in the demand for labor, and reduction in the demand for U.S. products and services, resulting in a sharp increase in unemployment. The economic disruptions caused by COVID-19 and the increased uncertainty about the magnitude of the economic slowdown has also caused extreme volatility in the financial markets.

The full effect of COVID-19 on the U.S. and global insurance and reinsurance industry is still unknown at the time of releasing this report. This office is expecting the COVID-19 outbreak to impact a wide range of insurance products, resulting in coverage disputes, reduced liquidity of insurers, and other areas of operations of insurers. OCI and all insurance regulators with the assistance of the National Association of Insurance Commissioners are monitoring the situation through a coordinated effort and will continue to assess the impacts of the pandemic on U.S. insurers. OCI has been in communication with the Sentry Insurance Group regarding the impact of COVID-19 on business operations and the financial position of Peak, and no immediate action was deemed necessary at the time of this report.