Report of the Examination of

Sentry Insurance a Mutual Company

Stevens Point, Wisconsin

As of December 31, 2018

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State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

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April 3, 2020

Honorable Mark V. Afable
Commissioner of Insurance
State of Wisconsin
125 South Webster Street
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Commissioner:

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

SENTRY INSURANCE A MUTUAL COMPANY
Stevens Point, Wisconsin

and this report is respectfully submitted.

I. INTRODUCTION

The previous examination of Sentry Insurance a Mutual Company (Sentry Insurance 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 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

Hardware Dealers Mutual Fire Insurance Company of Wisconsin was incorporated on June 10, 1903, and commenced business on April 8, 1904. In response to state licensing restrictions prohibiting a single company from writing both property and casualty risks, the Wisconsin Hardware Limited Mutual Liability Insurance Company was incorporated under the laws of the state of Wisconsin on December 19, 1913, and commenced business on August 15, 1914. The casualty company's name was changed to Wisconsin Hardware Casualty Company at a meeting of the policyholders on February 4, 1920.

In 1963, Hardware Dealers Mutual Fire Insurance Company of Wisconsin and Wisconsin Hardware Casualty Company adopted the trade name of "Sentry Insurance." In September 1966, the companies acquired majority financial control of Dairyland Insurance Company (Dairyland) and its downstream subsidiaries.

Effective September 30, 1970, Hardware Dealers Mutual Fire Insurance Company of Wisconsin was merged into Wisconsin Hardware Casualty Company and became known as Hardware Mutual Casualty Company until July 1, 1971, when the name was changed to Sentry Insurance a Mutual Company.

Effective June 6, 1974, Sentry Insurance entered into an agreement with Middlesex Mutual Insurance Company (Middlesex Mutual), a Massachusetts company, whereby Middlesex Mutual would demutualize and be acquired, along with its subsidiary, Patriot General Insurance Company (Patriot General), by The Sentry Corporation, then a wholly owned subsidiary of Sentry Insurance. In June 1974, special legislation passed by the Massachusetts Legislature permitted the conversion; articles of amendment were filed with the Secretary of the Commonwealth of Massachusetts to execute the conversion and rename the company Middlesex Insurance Company (Middlesex). The Massachusetts Insurance Division approved the transactions. The Sentry Corporation acquired all 200,000 shares issued by the company.

In 1986, ownership of Middlesex was transferred from The Sentry Corporation to Sentry Insurance, its current parent, as part of an effort to separate insurance operations from noninsurance operations. On April 28, 1994, Middlesex, together with its subsidiary, Patriot General, redomesticated from Massachusetts to Wisconsin.

On September 30, 1999, Sentry Insurance acquired 100% of the outstanding common stock of the John Deere Insurance Group, Inc., and subsequently changed the name of the holding company to Sentry Insurance Holding Company. The subsidiaries of the holding company were Sentry Select Insurance Company (Sentry Select, formerly John Deere Insurance Company), Sentry Casualty Company (Sentry Casualty, formerly John Deere Casualty Company), Rock River Insurance Company, and Sentry Insurance Agency, Inc. (formerly John Deere Insurance Agency, Inc.). The Parker Stevens Agency of Texas, Inc. (formerly John Deere General Agency, Inc.) is a subsidiary of Sentry Select. On February 1, 2002, Sentry Insurance Holding Company sold Rock River Insurance Company to Arch Capital Group, Ltd. Effective January 1, 2003, Sentry Insurance Agency, Inc., was merged into Parker Stevens Agency, L.L.C., and effective June 1, 2004, Parker Stevens Agency of Texas, Inc., was also merged into Parker Stevens Agency, L.L.C. On December 30, 2005, direct ownership of Sentry Select and Sentry Casualty was transferred from Sentry Insurance Holding Company to Sentry Insurance. Additional information about these entities can be found in section IV of this report titled “Affiliated Companies.”

On November 1, 2005, Sentry Insurance acquired control of Viking Insurance Company of Wisconsin (Viking) and its wholly owned subsidiary Peak Property and Casualty Insurance Corporation (Peak) pursuant to a Stock Purchase Agreement for 100% of the issued and outstanding shares of the capital stock of Viking from Royal & Sun Alliance USA, Inc. Both Viking and Peak were redomesticated from the state of Colorado to the state of Wisconsin on December 15, 2006.

On July 1, 2015, Sentry insurance entered into an affiliation agreement with Florists’ Mutual Insurance Company (Florists’ Mutual) and its wholly owned subsidiary Florists’ Insurance Company (Florists’). Both Florists’ Mutual and Florists’ remain domiciled in Illinois and are operating under the Hortica Insurance name.

Sentry Insurance is the primary employer for the Sentry Insurance Group, with approximately 4,248 employees nationwide at the time of this examination. The only other employer in the group is Sentry Services, L.L.C., with approximately 220 employees. All operations of the group's insurance and noninsurance entities are conducted with staff provided by these companies in accordance with business practices and internal controls established by Sentry Insurance. Virtually all expenses are initially paid by Sentry Insurance. Expenses other than taxes are allocated based on specific identification, utilization estimates developed from such criteria as premium or claim volume, and time studies, in accordance with a written general expense allocation agreement. Tax allocations are established in accordance with a written policy approved by the Sentry Insurance board of directors on February 2, 1983. Intercompany balances with affiliates are created in the ordinary course of business with settlements generally made on a monthly basis. Written agreements with affiliates are further described in section IV of this report titled "Affiliated Companies."

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

Colorado	$ 62,326,793	12.1%
Wisconsin	61,966,448	12.1
Arizona	43,546,337	8.5
Texas	38,789,411	7.6
California	35,327,097	6.9
New Mexico	33,051,386	6.4
All others	238,756,801	46.4
Total	$513,764,273	100.0%

Sentry Insurance is licensed in all 50 states, the District of Columbia, Puerto Rico, and Canada.

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
Fire	$ 20,163,750	$ 17,780,937	$ 18,515,096	$ 19,429,590
Allied lines	47,291,746	36,441,721	44,867,141	38,866,325
Homeowners multiple peril	174,334		80,194	94,140
Commercial multiple peril	8,647,630	702,314	4,841,269	4,508,675
Ocean marine		157,475	72,439	85,037
Inland marine	5,343,864	91,874,153	45,041,779	52,176,238
Earthquake	433,204	610,968	504,413	539,758
Group accident and health	1,386,999	11,368,005	5,942,603	6,812,402
Other accident and health		51,670	30,697	20,974
Workers' compensation	143,919,185	306,936,522	213,526,455	237,329,252
Other liability – occurrence	36,774,500	70,415,163	50,747,213	56,442,450
Other liability – claims made	1,408,447	2,941,730	2,470,710	1,879,467
Excess workers' compensation	2,276,413	966,039	1,612,068	1,630,384
Products liability – occurrence	24,086,530	12,938,286	17,714,594	19,310,222
Private passenger auto liability	109,100,546	650,807,322	349,922,018	409,985,850
Commercial auto liability	67,400,757	289,037,363	168,345,959	188,092,161
Auto physical damage	44,445,627	317,793,123	166,712,940	195,525,811
Fidelity	755,639	3,320,567	1,875,495	2,200,711
Surety	137,434	574,561	327,518	384,477
Burglary and theft	17,668	342,214	165,546	194,337
Reinsurance – non-proportional assumed liability		4,001	1,840	2,161
Total All Lines	$513,764,273	$1,815,064,135	$1,093,317,986	$1,235,510,421

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.

Sentry Insurance directly underwrites business in the National Accounts, Direct Writer, Regional, and Dairyland Auto business units. All direct and assumed business, net of cessions to third party reinsurers, is pooled with affiliates. The reinsurance pooling agreement is described in Section V of this report, titled “Reinsurance.”

III. MANAGEMENT AND CONTROL

Board of Directors

The board of directors consists of nine members, eight of whom are outside directors. Directors are elected annually, with each director serving for a three-year term. Officers are elected at the annual May board meeting and are to hold those positions until the earlier of their resignation or removal by the board of directors. Inside board members receive no additional compensation for their service. Each of the outside board members currently receives $80,000 a year as a retainer for participating in regular board meetings. Additional fees are received for committee and special meetings, and serving as chair for a board committee, with amounts varying based on the particular committees, number of committees, and role on the committees on which a director serves. Members of the board of directors participate in an annual performance-based (variable) incentive plan. The company periodically establishes financial and operational goals based on the relative comparison of its results against peer's performance. Peers are other insurance companies with a similar product mix. The total compensation depends on time served during the three-year calculation period and the company's performance relative to its peers.

The company has a distinctive practice under its Corporate Governance Guidelines whereby new directors are typically first elected for a one-year trial period. Provided the one-year trial period proceeds on a satisfactory basis, the director is then nominated for a two-year period to put them on track with a regular three-year term.

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

Name and Residence	Principal Occupation	Term Expires
Peter G. McPartland Stevens Point, Wisconsin	Chairman of the Board, President, and Chief Executive Officer Sentry Insurance a Mutual Company	2020
Graham W. Atkinson Evanston, Illinois	Retired Chief Marketing and Customer Experience Officer Walgreens Boots Alliance, Inc.	2022
David R. Casper Northbrook, Illinois	President and Chief Executive Officer BMO Harris Bank N.A.	2020

Name and Residence	Principal Occupation	Term Expires
William D. Harvey Madison, Wisconsin	Retired Chairman, President and Chief Financial Officer Alliant Energy Corporation	2022
Stephanie P. Marshall Burr Ridge, Illinois	President Emerita Illinois Mathematics and Science Academy	2020
James D. Pearson Bonita Springs, Florida	Retired President Aurora Metals Division, LLC	2020
Peter J. Pestillo Naples, Florida	Retired Chairman of the Board Visteon Corporation	2020
Jean H. Regan Elmhurst, Illinois	Chairman, President, and Chief Executive Officer TranzAct Technologies, Inc.	2021
Shirley A. Weis Scottsdale, Arizona	President Weis Associates, LLC	2019

Officers of the Company

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

Name	Office	2018 Compensation*
Peter G. McPartland	President and Chief Executive Officer	$2,578,035
Kip J. Kobussen	Vice President, General Counsel and Corporate Secretary	119,615
Michael J. Williams	Vice President and Chief Actuary	296,624
Todd M. Schroeder	Vice President and Treasurer	207,066
Peter G. Anhalt	Vice President	169,745
Michele M. Dufresne	Vice President	107,678
John J. Hyland	Vice President	383,328
Dennis J. Levesque	Vice President	113,128
James E. McDonald	Vice President	630,197
Scott A. Miller	Vice President	173,820
Jayne K. Petruska	Vice President	212,358
Elisha E. Robinson	Vice President	105,978
Stephanie L. Smith	Vice President	116,383

Name	Office	2018 Compensation*
James D. Stitzlein	Vice President	383,620

* 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. The committees at the time of the examination are listed below:

Compensation and Personnel Committee
James D. Pearson, Chair
Graham W. Atkinson
William D. Harvey
Peter J. Pestillo
Jean H. Regan
Shirley A. Weis

Audit Committee
Jean H. Regan, Chair
Graham W. Atkinson
Stephanie P. Marshall
Shirley A. Weis

Governance Committee
Peter J. Pestillo, Chair
David R. Casper
William D. Harvey
James D. Pearson
Jean H. Regan

Mergers & Acquisitions Committee
William D. Harvey, Chair
David R. Casper
Stephanie P. Marshall
James D. Pearson
Peter J. Pestillo

Investment & Finance Committee
David R. Casper, Chair
Graham W. Atkinson
Stephanie P. Marshall
Shirley A. Weis

Nominating Sub-Committee
James D. Pearson, Chair
David R. Casper
Peter J. Pestillo

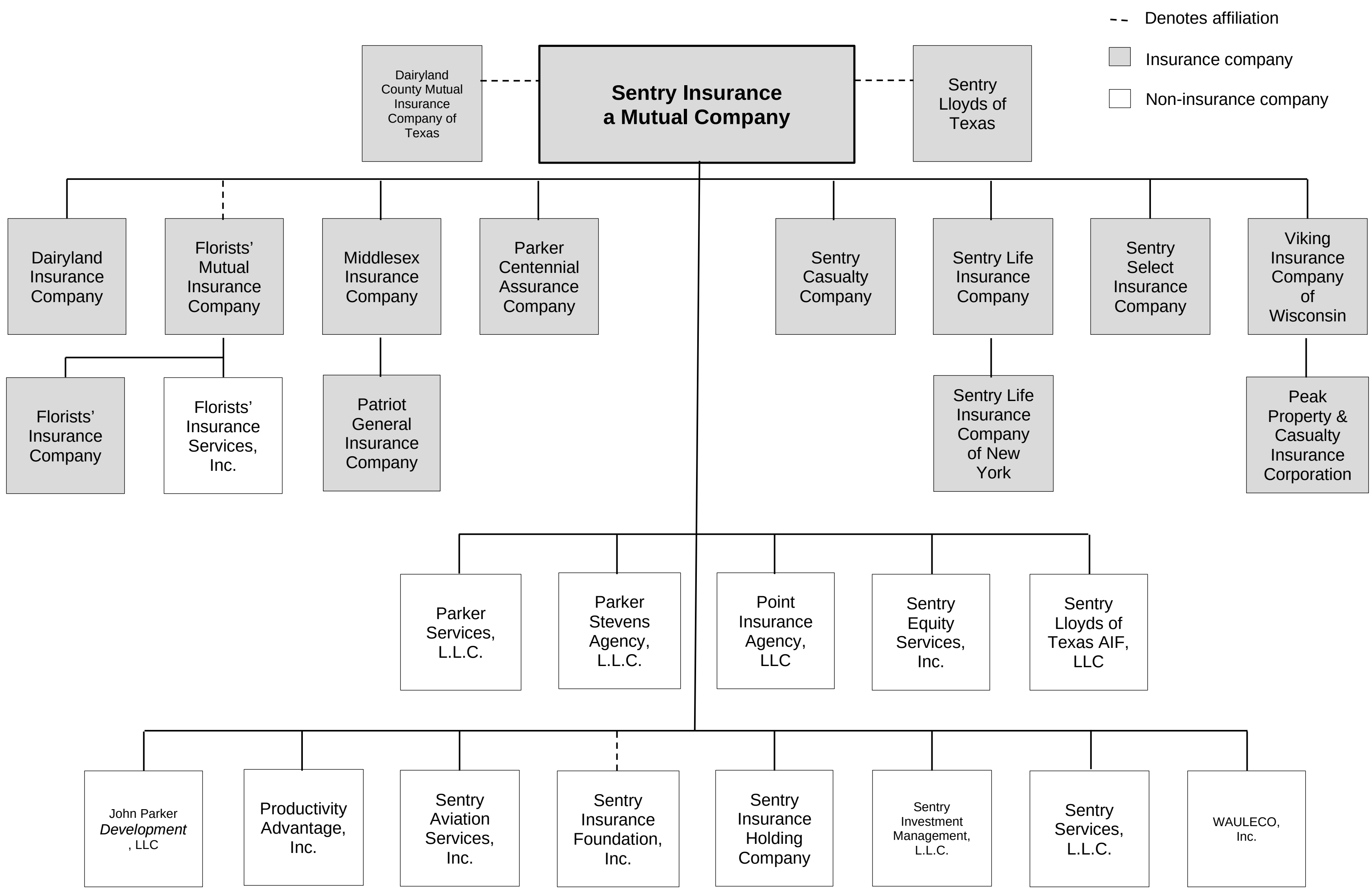
IV. AFFILIATED COMPANIES

Sentry Insurance is 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 is affiliated through a mutual affiliation agreement. A brief description of the significant affiliates follows the organizational chart.

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

Dairyland County Mutual Insurance Company of Texas

Dairyland County Mutual Insurance Company of Texas (Dairyland County) is a Texas county mutual insurer organized on May 27, 1946. It is licensed only in the state of Texas and specializes exclusively in nonstandard auto and motorcycle insurance. As a mutual company, Dairyland County is owned by its policyholders. Dairyland County is affiliated with Sentry Insurance through common management and control as well as certain management service agreements. Dairyland County cedes 100% of its direct written premium to Dairyland Insurance Company. Effective June 30, 2011, Viking County Mutual Insurance Company merged into Dairyland County. As of December 31, 2018, the statutory basis audited financial statements of Dairyland County reported assets of $22,710,321, liabilities of $10,156,914, policyholders' surplus of $12,553,407, and net income of $18,399. Dairyland County was examined concurrently with Sentry Insurance as of December 31, 2018, and the results of that examination are expressed in a separate report issued by the Texas Department of Insurance.

Dairyland Insurance Company

Dairyland Insurance Company (Dairyland) is a Wisconsin-domiciled stock property and casualty insurer licensed in 48 states. The company was formed on August 1, 1965, to become a successor of the Dairyland Mutual Insurance Company organized on January 8, 1953. During 1966, Sentry Insurance acquired all outstanding common shares and has since held 100% ownership, though control has, at times, been indirect. At present, Sentry Insurance holds 100% of all outstanding common stock directly.

On its direct business, the company specializes in nonstandard auto and motorcycle business. Dairyland also assumes 100% of the business of Dairyland County, a Texas county mutual. Dairyland has a 17.5% participation in the affiliated pooling agreement. As of December 31, 2018, the statutory basis audited financial statements of Dairyland reported assets of $1,422,403,541, liabilities of $951,772,496, surplus of $470,631,045, and net income of $22,477,854. Dairyland was examined concurrently with Sentry Insurance as of December 31, 2018, and the results of that examination are expressed in a separate report.

Florists' Insurance Company

Florists' Insurance Company (Florists') is an Illinois-domiciled property and casualty insurer licensed in seven states. Florists' has been in operation since 1976. Florists' was acquired by Sentry Insurance as part of the affiliation agreement that Sentry Insurance and Florists' Mutual entered into on July 1, 2015. Florists' remains a subsidiary of Florists' Mutual, which is now mutually affiliated with Sentry Insurance.

Florists' direct business is 100% Hortica business. The company cedes 100% of its business to its parent company, Florists' Mutual. As of December 31, 2018, the statutory basis audited financial statements of Florists' reported assets of $5,563,652, liabilities of $446,566, surplus of $5,117,086, and net income of $172,573. Florists' was examined concurrently with Sentry Insurance as of December 31, 2018, and the results of that examination are expressed in a separate report issued by the Illinois Department of Insurance.

Florists' Mutual Insurance Company

Florists' Mutual Insurance Company (Florists' Mutual) is an Illinois-domiciled mutual property and casualty insurer licensed in 50 states and the District of Columbia. Florists' Mutual has been in operation since 1887. On July 1, 2015, Florists' Mutual entered into an affiliation agreement with Sentry Insurance that was approved by the Wisconsin Office of the Commissioner of Insurance and the Illinois Department of Insurance. Sentry Insurance gained control of five of the eight seats on the Florists' Mutual Board of Directors as part of this transaction.

Florists' Mutual's direct business is 100% Hortica business. The company also assumes 100% of the business of Florists', a wholly owned subsidiary. Florists' Mutual has a 1% participation in the affiliated pooling agreement. As of December 31, 2018, the statutory basis audited financial statements of Florists' Mutual reported assets of $133,813,806, liabilities of $106,167,173, surplus of $27,646,634, and net income of $861,561. Florists' Mutual was examined concurrently with Sentry Insurance as of December 31, 2018, and the results of that examination are expressed in a separate report issued by the Illinois Department of Insurance.

Middlesex Insurance Company

Middlesex Insurance Company (Middlesex) is a Wisconsin-domiciled stock property and casualty insurer licensed in 50 states and the District of Columbia. Middlesex was chartered by the Massachusetts Legislature as the Middlesex Mutual Fire Insurance Company on March 31, 1826. Conversion from a mutual to a capital stock company was affected by the charter amendment on June 11, 1974, in connection with Sentry Insurance's acquisition of control, at which time it adopted its present name. Sentry Insurance has since held 100% ownership and, while presently its interest is direct, control had at times been indirect. On April 28, 1994, the company redomesticated from Massachusetts to Wisconsin.

Of its direct business, Middlesex writes 42% in auto lines, 38% in workers' compensation, 11% in general and product liability, and 9% in a variety of products relating to the Sentry Insurance Group's Regional and Direct Writer business units. The company also assumes 100% of the business of Patriot General, a wholly owned subsidiary. Middlesex has a 10% participation in the affiliated pooling agreement. As of December 31, 2018, the statutory basis audited financial statements of Middlesex reported assets of $791,312,519, liabilities of $548,024,540, surplus of $243,287,979, and net income of $10,857,190. Middlesex was examined concurrently with Sentry Insurance as of December 31, 2018, and the results of that examination are expressed in a separate report.

Parker Centennial Assurance Company

Sentry Insurance acquired Acceleration Life Insurance Company from Lyndon Life Insurance Company, a subsidiary of Protective Life Corporation, by means of a stock purchase agreement dated December 20, 2003, which closed on March 19, 2004. Acceleration Life Insurance Company was redomesticated from Ohio to Wisconsin and the name was changed to Parker Centennial Assurance Company (Parker Centennial), effective August 11, 2004.

Parker Centennial is exclusively used to provide annuity contracts to fund structured settlements with settling parties that originate within the Sentry Insurance Group. Effective July 13, 2004, Sentry Insurance guaranteed the payment obligations of Parker Centennial pursuant to the terms of any structured settlement agreement, up to an aggregate amount of $100,000,000. As of December 31, 2018, the audited financial statements of Parker Centennial reported assets of $94,889,875, liabilities of $47,797,812, surplus of $47,092,063, and net income of $1,511,753. Parker Centennial was examined concurrently with Sentry Insurance as of December 31, 2018, and the results of that examination are expressed in a separate report.

Patriot General Insurance Company

Patriot General Insurance Company (Patriot General) is a stock property and casualty insurer licensed in 22 states, incorporated under its present name pursuant to the laws of the Commonwealth of Massachusetts on January 2, 1968. Sentry Insurance acquired 100% indirect ownership of Patriot General in June 1974, in connection with the acquisition of Middlesex. On April 28, 1994, Patriot General redomesticated to the state of Wisconsin.

Of its direct business, Patriot General writes 74% in workers' compensation primarily in the Direct Writer business unit, 22% in auto lines relating to the Dairyland Auto business unit, and 4% in miscellaneous products relating to the Direct Writer business unit. Patriot General cedes 100% of its business to Middlesex, its immediate parent. As of December 31, 2018, the statutory basis audited financial statements of Patriot General reported assets of $25,901,636, liabilities of $515,788, surplus of $25,385,848, and net income of $689,938. Patriot General was examined concurrently with Sentry Insurance as of December 31, 2018, and the results of that examination are expressed in a separate report.

Peak Property and Casualty Insurance Corporation

On November 1, 2005, Sentry Insurance acquired 100% indirect ownership of Peak Property and Casualty Insurance Corporation (Peak) in connection with the acquisition of Viking Insurance Company of Wisconsin from Royal & Sun Alliance USA, Inc., pursuant to a stock purchase agreement. On December 15, 2006, Peak redomiciled from the state of Colorado to the state of Wisconsin. Peak is a stock property and casualty insurer licensed in 45 states and the District of Columbia. It was incorporated pursuant to the laws of the state of North Carolina on August 16, 1985, as General Electric Residential Mortgage Corporation and commenced business on August 29, 1985. Peak's current name was adopted on July 10, 1991.

The focus of Peak is writing Dairyland Auto business, where it can provide coverage not readily available in the general insurance market. The company cedes 100% of its business to Viking, its immediate parent. As of December 31, 2018, the statutory basis audited financial statements of Peak reported assets of $44,095,255, liabilities of $5,071,033, surplus of $39,024,222, and net income of $421,654. Peak was examined concurrently with Sentry Insurance as of December 31, 2018, and the results of that examination are expressed in a separate report.

Sentry Casualty Company

Sentry Casualty Company (Sentry Casualty) is a property and casualty insurer incorporated on July 23, 1973, in the state of Nevada as Tahoe Insurance Company. It was organized by Deere & Company, and ownership was shared with Sierra General Life Insurance Company (Sierra). Upon the liquidation of Sierra in 1995, the John Deere Insurance Group, Inc., assumed the shares. After the company redomesticated to Illinois in 1996, the name was changed to John Deere Casualty Company. Sentry Insurance acquired 100% indirect ownership in connection with the acquisition of John Deere Insurance Group, Inc., on September 30, 1999, and changed the company’s name to Sentry Casualty Company. On January 1, 2001, the company redomesticated to Wisconsin.

Sentry Casualty is licensed in 50 states and the District of Columbia. Sentry Casualty did not write any direct business after its acquisition by Sentry Insurance in 1999, until 2008 when Sentry Insurance commenced transferring some of its National Accounts business to Sentry Casualty. Of its direct business, Sentry Casualty writes over 99% in workers’ compensation and the remainder in general liability for the National Accounts business unit. Sentry Casualty has a 2.5% participation in the affiliated pooling agreement. As of December 31, 2018, the statutory basis audited financial statements of Sentry Casualty reported assets of $355,548,712, liabilities of $284,822,114, surplus of $70,726,597, and net income of $4,771,133. Sentry Casualty was examined concurrently with Sentry Insurance as of December 31, 2018, and the results of that examination are expressed in a separate report.

Sentry Life Insurance Company

Sentry Life Insurance Company (Sentry Life) is a Wisconsin-domiciled life insurer organized on October 23, 1958, and is a wholly owned subsidiary of Sentry Insurance. Premiums are derived from the sale of group accident and health insurance products, individual and group life insurance, and annuities. The company cedes its group accident and health business to Sentry Insurance under a 100% quota share agreement. Sentry Life is licensed in the District of Columbia and all states except for New York. Effective on February 19, 1998, Sentry Insurance guaranteed the payment obligations of Sentry Life to fund structured settlements originating from affiliates in the Sentry Insurance Group through annuity contracts. As of December 31, 2018, the statutory basis audited financial statements of Sentry Life reported assets of $7,018,893,337, liabilities of $6,723,071,856, surplus of $295,821,481, and net income of $32,329,458. Sentry Life was examined concurrently with Sentry Insurance as of December 31, 2018, and the results of that examination are expressed in a separate report.

Sentry Life Insurance Company of New York

Sentry Life Insurance Company of New York (Sentry Life of New York) is a New York-domiciled life insurer incorporated on May 23, 1966, and is a wholly owned subsidiary of Sentry Life. Sentry Life of New York is licensed in Minnesota, New York, and North Dakota. Over 99% of the company's direct business is written in New York, which is the territorial focus of its sales efforts. It writes predominantly annuity business, though individual and group life insurance and group accident and health products are written as well, to a much lesser extent. Sentry Life of New York retains nearly all of its direct writings. As of December 31, 2018, the statutory basis audited financial statements of Sentry Life of New York reported assets of $114,674,144, liabilities of $104,337,755, surplus of $10,336,390, and net income of $513,599. Sentry Life of New York was examined concurrently with Sentry Insurance as of December 31, 2018, and the results of that examination are expressed in a separate report issued by the New York Department of Financial Services.

Sentry Lloyds of Texas

Sentry Lloyds of Texas (Sentry Lloyds) is a Texas-domiciled Lloyds plan property and casualty insurer established on October 18, 1983. Sentry Lloyds was organized as a trust of which Sentry Insurance is the sole grantor and beneficiary. Sentry Lloyds is licensed only in Texas and specializes in commercial package policies. Sentry Lloyds cedes 100% of its business to Sentry Insurance under a quota share agreement. As of December 31, 2018, the statutory basis audited financial statements of Sentry Lloyds reported assets of $7,545,032, liabilities of $265,293, policyholders' surplus of $7,279,739, and net income of $148,722. Sentry Lloyds was examined concurrently with Sentry Insurance as of December 31, 2018, and the results of that examination are expressed in a separate report issued by the Texas Department of Insurance.

Sentry Select Insurance Company

Sentry Select Insurance Company (Sentry Select) is a property and casualty insurer incorporated on August 1, 1929, as the Fulton Fire Insurance Company under the laws of New York. On May 8, 1969, Deere & Company acquired the company from Hanover Insurance Company of New York and changed its name to John Deere Insurance Company. The company redomesticated to Illinois on December 31, 1982. Sentry Insurance acquired 100% indirect ownership in connection with the acquisition of John Deere Insurance Group, Inc., on September 30, 1999, and the name was changed to Sentry Select Insurance Company. On January 1, 2001, the company redomesticated to Wisconsin.

Sentry Select is licensed in all 50 states and the District of Columbia. Of its direct business, it writes 62% in auto, 15% in inland marine, 10% in general and products liability, 5% in workers’ compensation, and 8% in a variety of business relating to the Sentry Insurance Group’s Direct Writer business unit. Sentry Select has a 10% participation in the affiliated pooling agreement. As of December 31, 2018, the statutory basis audited financial statements of Sentry Select reported assets of $846,026,990, liabilities of $620,219,708, surplus of $225,807,282, and net income of $11,933,143. Sentry Select was examined concurrently with Sentry Insurance 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 what is 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 Wisconsin to 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, 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 Sentry Insurance as of December 31, 2018, and the results of that examination are expressed in a separate report.

Dairyland National Insurance Company

Dairyland National Insurance Company (Dairyland National) is a stock property and casualty company incorporated on July 7, 2019, under the laws of the State of Wisconsin. It commenced business on August 20, 2019. It will underwrite Dairyland Auto and Dairyland Cycle business and cede 100% of its business to its parent company, Sentry Insurance. As the company was formed and operated entirely outside of the examination period, it was not included in the scope of the examination.

Noninsurance Subsidiaries and Affiliates

John Parker Development, L.L.C.

John Parker Development, L.L.C. (John Parker) is a Wisconsin-domiciled company that is a real estate development company. On October 27, 2011, John Parker, a wholly owned subsidiary of Sentry Insurance, was incorporated in the state of Wisconsin. As of December 31, 2018, the unaudited financial statements of John Parker reported assets and stockholders' equity of $3,450,000 and no liabilities. Operations for 2018 did not produce net income.

Parker Services, L.L.C.

Parker Services, L.L.C. (Parker Services) is a Wisconsin-domiciled company that provides loss control and industrial hygiene services. Parker Services is also a third-party administrator for self-insured worker's compensation customers. In 2018, Parker Services provided third-party administration for 79 entities, with gross receipts of $1,907,854. As of December 31, 2018, the unaudited financial statements of Parkers Services reported assets of $2,695,385, liabilities of $1,800,757, and stockholder's equity of $894,628. Operations for 2018 produced a net loss of $154,022.

Parker Stevens Agency, L.L.C.

Parker Stevens Agency, L.L.C., organized on October 29, 2001, is a Wisconsin-domiciled insurance agency providing facilities for direct sales representatives to accommodate policyholders with coverage not written by insurers in the Sentry Insurance Group. Parker Stevens Agency, L.L.C., arranges placement of such business using outside brokers. Effective

January 1, 2003, Parker Stevens Agency, Inc., and Sentry Insurance Agency, Inc., were merged into Parker Stevens Agency, L.L.C. Effective June 1, 2004, Parker Stevens Agency of Texas, Inc., was also merged into Parker Stevens Agency, L.L.C. Effective July 1, 2013, Parker Stevens Insurance Agency of Massachusetts was merged into Parker Stevens Agency, L.L.C. As of December 31, 2018, Parker Stevens Agency, L.L.C.'s unaudited financial statements reported assets of $8,884,370, liabilities of $4,999,949, stockholders' equity of $3,884,421, and net income of $2,595,095.

Point Insurance Agency, L.L.C.

Point Insurance Agency, L.L.C. (Point Insurance) is a Wisconsin-domiciled company that is a wholly owned subsidiary of Sentry Insurance. Point Insurance was organized on August 29, 2012. Point Insurance arranges placement of standard personal lines insurance with insurers in the Sentry Insurance Group and with other external insurance companies. As of December 31, 2018, Point Insurance's unaudited financial statements reported assets of $590,191, liabilities of $183,177, and stockholders' equity of $407,014. Operations for 2018 produced a net loss of $61,742.

Sentry Lloyds of Texas AF, LLC

Sentry Lloyds of Texas AF, LLC is a Texas limited liability company that serves as the corporate attorney-in-fact for Sentry Lloyds of Texas. Sentry Lloyds of Texas AF, LLC reported no assets, liabilities, stockholder's equity, or net income in 2018.

Productivity Advantage, Inc.

Productivity Advantage, Inc. (Productivity) is a Wisconsin-domiciled corporation that is a wholly owned subsidiary of Sentry Insurance. Productivity was organized on October 1, 2013. Productivity owns two of the corporate aircraft of Sentry Insurance, which are leased back to Sentry Insurance. As of December 31, 2018, the unaudited financial statements of Productivity reported assets of $55,248,942, liabilities of $134,470, and stockholders' equity of $55,114,472. Operations for 2018 produced a net income of $1,777,017.

Sentry Aviation Services, Inc.

Sentry Aviation Services, Inc. (Sentry Aviation) is a Wisconsin-domiciled corporation organized on August 15, 1979. It formerly was the Fixed Base Operator of the Stevens Point Airport and performed other aviation-related activities but is currently inactive. In 2014, Sentry Aviation Services, L.L.C., was merged into Sentry Aviation Services, Inc. As of December 31, 2018, Sentry Aviation's unaudited financial statements reported assets and stockholders' equity of $186,376 with no liabilities. Operations for 2018 produced no net income or loss.

Sentry Equity Services, Inc.

Sentry Equity Services, Inc. (SESI), organized as a Delaware corporation on May 9, 1969, is a registered broker-dealer under the Securities Exchange Act of 1934. The corporation's securities operations are limited to the sale and redemption of redeemable securities issued by registered investment companies. SESI acts as the distributor of Sentry Life's and Sentry Life of New York's Variable Annuity and Variable Universal Life products through Sentry Insurance's direct writer registered representatives. Sentry Life no longer sells individual variable annuity or universal life products; however, SESI administers the products that are currently in force. As of December 31, 2018, SESI's audited GAAP financial statements reported assets of $136,853, liabilities of $68,391, and stockholders' equity of $68,462. Operations for 2018 produced a net income of $10,813.

Sentry Insurance Foundation, Inc.

Sentry Insurance Foundation, Inc. (Foundation) is a nonstock benevolent corporation organized on January 3, 1964, under ch. 181, Wis. Stat. It administers funds provided by the Sentry Insurance Group for educational purposes and donations to charitable organizations. A portion of disbursements relates to a program whereby the Sentry Insurance Group matches the charitable donations of employees under qualified circumstances. As of December 31, 2018, the Foundation's unaudited financial statements reported assets of $4,833,040, liabilities of $1,083,929, and a fund balance of $3,749,112. Contributions totaling $3,107,697 were administered in 2018 to charitable organizations. Stock donations valued at $3,095,708 were made from Sentry Insurance to the Foundation in 2018. In 2018, the Foundation recorded a net loss of $100,403, attributable to charitable contributions made and expenses incurred, which exceeded investment income it received on the fund assets and contributions received during the year.

Sentry Insurance Holding Company

On September 30, 1999, Sentry Insurance acquired 100% of the outstanding common stock of the John Deere Insurance Group, Inc., and subsequently changed its name to Sentry Insurance Holding Company (SIHC). The subsidiaries of SIHC were Sentry Select Insurance Company (formerly John Deere Insurance Company), Sentry Casualty Company (formerly John Deere Casualty Company), Rock River Insurance Company, and Sentry Insurance Agency, Inc. (formerly John Deere Insurance Agency, Inc.). The Parker Stevens Agency of Texas, Inc., (formerly John Deere General Agency, Inc.) was a subsidiary of Sentry Select Insurance Company. The three insurance companies redomesticated to Wisconsin effective January 1, 2001.

The acquisition of the John Deere Insurance Group, Inc., was viewed as an opportunity for growth and enabled the Sentry Insurance Group to offer a full line of insurance products to dealers of farm and lawn equipment, construction equipment, recreational vehicles, and trucking operations.

On February 1, 2002, SIHC sold Rock River Insurance Company to Arch Capital Group, Ltd. Effective January 1, 2003, Sentry Insurance Agency, Inc., was merged into Parker Stevens Agency, L.L.C., and effective June 1, 2004, Parker Stevens Agency of Texas, Inc., was also merged into Parker Stevens Agency, L.L.C. In 2005, SIHC transferred direct ownership of Sentry Select Insurance Company and Sentry Casualty Company to Sentry Insurance, thereby limiting its operations and role in the Sentry Insurance Group to be a shell holding company entity. SIHC reported no assets, liabilities, stockholder’s equity, or net income in 2018.

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 stockholders' equity of $141,600. Operations for 2018 produced no net income or loss. SIML is a wholly owned subsidiary of Sentry Insurance.

Sentry Services, L.L.C.

Sentry Services, L.L.C. (SSL) is a Wisconsin-domiciled corporation organized on November 23, 1976. It provides building and other general services for facilities owned by Sentry Insurance including, but not limited to, a restaurant, an auto service center, and SentryWorld's golf course, sports bar, pro shop, and tennis and racquetball courts. All these operations are located in Stevens Point, Wisconsin. Most of the services are available to the general public as well as to Sentry Insurance Group employees. In 2007, SSL changed its status to a limited liability corporation. As of December 31, 2018, SSL's unaudited financial statements reported assets of $1,636,104, liabilities of $1,436,104, and stockholders' equity of $200,000. A capital infusion of $3,350,085 from Sentry Insurance, its sole stockholder, brought 2018 reported net income to $0.

WAULECO, Inc.

WAULECO, Inc. (WAULECO) was incorporated in Wisconsin on April 4, 1899, as Vetter Manufacturing Company. The company once specialized in energy-efficient wood and metal clad windows for residential and light commercial use, with plant locations in Stevens Point, Wisconsin, and Rockford, Illinois. It later acquired an industrial property in Wausau, Wisconsin, once used in the production of windows by Harris-Crestline Corporation, formerly a direct wholly owned subsidiary of the manufacturer.

Sentry Insurance purchased the Vetter Manufacturing Company on August 17, 1981, changed the name to SNE Corporation and continued its business operations. On April 18, 1987, the name and operating assets of SNE Corporation were sold to an investor group not affiliated with the Sentry Insurance Group. After this sale, SNE Corporation was renamed WAULECO, Inc.

Since the sale of its operating assets, WAULECO, Inc., has done nothing operationally except to clean up contaminated groundwater at the former Harris-Crestline industrial site in Wausau, Wisconsin. The site no longer has any manufacturing buildings, as they were razed and the land blacktopped. The only physical assets are pumping equipment that is used to extract and treat contaminated groundwater. The groundwater was contaminated from the use of a wood sealant that contained a hazardous material called pentachlorophenol. Most of the contamination occurred prior to the Sentry Insurance Group's acquisition of the property. Remediation of the site is pursuant to an administrative order issued by Wisconsin's Department of Natural Resources (DNR) and there is close cooperation with the DNR. There has been no federal involvement.

As of December 31, 2018, WAULECO's unaudited financial statements reported assets of $1,364,955, liabilities of $8,663,131, and stockholders' deficit of $7,298,176. Liabilities include environmental expense reserves of $7,200,000.

Affiliated Agreements

Sentry Insurance is the primary employer for the Sentry Insurance Group, with approximately 4,248 employees nationwide at the time of this examination. The only other employer in the group is Sentry Services, L.L.C., with approximately 220 employees. All operations of the group's insurance and noninsurance entities are conducted with staff provided by these companies in accordance with business practices and internal controls established by Sentry Insurance. In addition to common staffing and management control, Sentry Insurance's relationship to its affiliates is affected by various written agreements. 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 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, Sentry Insurance reported no SLAP short-term investments and $89,803,186 in SLAP money market mutual funds. Sentry Insurance received $613,287 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 July 1, 2014. 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 the 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 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.

Lease Agreement

Effective May 15, 1982, Sentry Insurance entered into a lease agreement as landlord with Sentry Services, L.L.C., as tenant, for parts of the land and appurtenances in Stevens Point, Wisconsin, known and described as "SentryWorld." Rent is determined in accordance with the prevailing rent allocation formula used by Sentry Insurance to charge affiliated corporations for their common usage of property owned by Sentry Insurance.

Resource Agreement

On April 1, 1999, the company entered into a resource agreement with Parker Services, L.L.C., to provide personnel and other resources deemed reasonable and necessary by

Parker Services to conduct its day-to-day operations as described earlier in this section of the report. Sentry Insurance shall charge a fee on not less than a quarterly basis, which is based on a mutually determined amount and is to be settled within 30 days of notice of such fee. Either party may terminate the agreement with 60 days' written notice prior to any anniversary date of the agreement.

Management Agreement

Effective January 1, 2004, the company entered into a management agreement with Dairyland County Mutual Insurance Company of Texas to operate and manage all aspects of Dairyland County's operations. The first amendment to this agreement was effective January 1, 2006, and was amended to reflect how Sentry Insurance is to be compensated by Dairyland County for management services provided under this agreement. Sentry Insurance is to be reimbursed for all direct allocable expenses incurred by Sentry insurance on behalf of Dairyland County and a reasonable allocation of Sentry Insurance's general expenses. Under this agreement Sentry Insurance is also to receive Dairyland County's net earnings in excess of its net investment income, after accounting for and reserving for any of Dairyland County's taxes or liabilities, taking into consideration any surplus requirements.

Marketing Agreement

Sentry Insurance entered into a marketing agreement with Parker Services, L.L.C., effective January 1, 2002. Under this agreement, Sentry Insurance has nonexclusive rights to market services provided by Parker Services in conjunction with the marketing of its casualty insurance products and services. Services provided to customers by Parker Services were discussed earlier in this section of the report. Sentry Insurance shall pay a monthly royalty fee to Parker Services of $10,000 for use of Parker Services' name, trademarks, service marks, and logos as part of the marketing services provided by Sentry Insurance under this contract. This agreement may be terminated by Sentry Insurance or Parker Services upon 30 days' written notice.

Aircraft Lease Agreements

Sentry Insurance is party to a number of aircraft lease agreements with its wholly owned subsidiary Productivity Advantage, Inc. These agreements cover the lease of two aircraft by Sentry Insurance for its exclusive use. The agreements effective dates are December 16, 2012, November 21, 2011, and November 7, 2003. The agreements contain a provision that covers items such as rental fees, maintenance of the aircraft, and other such items to make sure the aircraft is properly cared for, insured, functional, and meets Federal Aviation Administration regulations.

Services Agreement

On January 1, 2005, Sentry Insurance entered into an agreement with Sentry Services, L.L.C., where SSL is to provide certain named regular and seasonal services on Sentry Insurance's various real estate holdings. In consideration of the services rendered by SSL, the company is to pay a fee based upon the fair market value of providing such services and includes any applicable sales or use tax incurred by SSL for providing such services. This agreement may be terminated by either party upon 30 days' written notice.

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 Standards Agreement

The company entered into a service standards agreement with Parker Services, L.L.C., effective April 1, 1999, where Parker Services acts as an independent contractor that is to provide various claims and other services to Sentry Insurance's insureds on behalf of Sentry Insurance. Services include but are not limited to: claim adjustment; settlement and payment of claims out of established claim funds; providing claim status updates; maintaining claim files; and, conducting safety services which include various loss control and industrial hygiene services. This agreement was created to enable proper allocation of internal expenses and to define the level of service that would be expected if the handling of self-insured claims was separated from the handling of claims on the insured business. Under this arrangement, claim administration relating to self-insureds would be performed by Parker Services' employees rather than Sentry Insurance's employees. However, since Parker Services does not have any of its own employees that can perform claims administration, it relies on Sentry Insurance's employees to perform this function on behalf of Parker Services through an affiliated resource agreement (as discussed earlier in this report). Either party may terminate this agreement upon 180 days' written notice.

Experience Return Reserve and Claim Stabilization Reserve Agreements

The company has established three separate agreements with Sentry Life Insurance Company to adjust premiums on policies it purchases from Sentry Life, based on experience and/or to smooth out fluctuations in claims experience from year to year that affect premium adjustment calculations. One of the agreements relates to a group life insurance policy for the Sentry Insurance Group's employees, sponsored by Sentry Insurance and insured by Sentry Life, effective January 1, 2013. The second agreement relates to group long-term disability and group travel accident insurance for the Sentry Insurance Group's employees, sponsored by Sentry Insurance and insured by Sentry Life, effective January 1, 2013. The third agreement relates to an extended group life insurance policy for the Sentry Insurance Group's employees, sponsored by Sentry Insurance and insured by Sentry Life, effective January 1, 2013.

Under these agreements, the parties have agreed that the premiums for the insurance policies mentioned above are to be adjusted to reflect their respective experiences. For the group life, group long-term disability, and group travel accident policies, Sentry Insurance is required to fund a claim stabilization reserve, which also affects the experience calculation.

The claim stabilization reserves range from 20% to 100% of the annual premiums dependent on the line of business. Either party may terminate this agreement giving the other party 30 days' written notice.

Assorted Administrative, Administrative Services, Intercompany Servicing, Outsourcing Service, Service, and Servicing Agreements

Sentry Insurance has established service agreements with most of its affiliates that have their own identifiable business operations, including the Canadian Branch of Sentry Insurance; see Exhibit below. This includes 14 separate agreements with varying effective dates. Under these agreements, Sentry Insurance is to provide essentially all services required for the business operations of the named affiliates. Services may be terminated by each of the parties at any time with varying times of written notice or by mutual consent, dependent on the terms of the specific agreement to which they are party. Expenses relating to the services provided under these agreements are allocated to the companies by Sentry Insurance through either the general expense allocation agreement (described earlier in this section of the report), 100% quota share reinsurance agreements, or by mutual determination each month. The service agreements with Sentry Life, Sentry Lloyds, Viking, and the Canadian Branch of Sentry Insurance are governed in accordance with the laws of the State of New York, State of Texas, State of California, and the Province of Ontario and Canada, respectively.

Company	Agreement Title	Current Contract Date
Sentry Lloyds of Texas	Services Agreement	06/01/1983
Sentry Aviation Services, L.L.C.	Service Agreement	11/16/2001
Sentry Select Insurance Company	Service Agreement	12/31/2003
Parker Stevens Agency, L.L.C.	Service Agreement	12/31/2003
Dairyland Insurance Company	Intercompany Servicing Agreement	12/31/2004
Middlesex Insurance Company	Intercompany Servicing Agreement	12/31/2004
Patriot General Insurance Company	Intercompany Servicing Agreement	12/31/2004
Peak Property and Casualty Insurance Corporation	Service Agreement	11/01/2005
Canadian Branch of SIAMCO	Outsourcing Service Agreement	04/14/2006
Sentry Life Insurance Company	Service Agreement	01/01/2008
Sentry Life Insurance Company of New York	Administrative Agreement	01/08/2013
Parker Centennial Assurance Company	Administrative Services Agreement	07/01/2014

Sentry Casualty Company	Administrative Services Agreement	07/01/2014
Viking Insurance Company of Wisconsin	Administrative Services Agreement	07/01/2014

Management, Services and Cost-Sharing Agreement

Sentry Insurance entered into an agreement with Florists' Mutual, Florists', and Florists' Insurance Services, Inc., on July 1, 2015. Following the companies entering into a Master Affiliation Agreement, this intercompany agreement was formed to outline how Sentry Insurance will provide the Florists' companies with certain management and administrative services, access to facilities, software and equipment, and other assistance. This agreement was modified twice to update schedules, revise payment terms, and terminate previous management agreements between the companies.

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 Property and Casualty Pooling Agreement

Sentry Insurance participates in a pooling arrangement with certain of its property and casualty affiliates. The pool participants cede 100% of their direct and assumed premiums, losses, loss adjustment expenses, and underwriting expenses, net of all cessions to nonaffiliated parties, to Sentry Insurance. The net pooled business is then distributed according to the participations listed below. Income and expenses related to investment operations are not included in pooling.

Dairyland, Middlesex, Sentry Select, Viking, Sentry Casualty, and Florists' Mutual are direct co-parties to the automatic nonaffiliated ceding reinsurance agreements of Sentry Insurance, along with Sentry Insurance's other U.S.-domiciled property and casualty affiliates. Sentry Insurance administers all aspects of the pooled business, including placement of reinsurance with nonaffiliated insurers. Reinsurance with nonaffiliated parties is transacted in the names of Sentry Insurance and other property and casualty affiliates, each for its own direct and assumed business, prior to pooling. After nonaffiliated cessions are made, the net business of each participant is pooled, and the net retained business of Sentry Insurance, Dairyland, Middlesex, Sentry Select, Viking, Sentry Casualty, and Florists' Mutual is derived from the pool.

Additional terms of the pool are outlined below:

Participations: As of January 1, 2019, participation was as follows:

Participating Company	Allocation
Sentry Insurance a Mutual Company	54.0%
Dairyland Insurance Company	17.5
Middlesex Insurance Company	10.0
Sentry Select Insurance Company	10.0
Viking Insurance Company of Wisconsin	5.0
Sentry Casualty Company	2.5
Florists' Mutual Insurance Company	1.0
Total Sentry Group Pool	100.0%

Lines covered: All lines of property and casualty business written by the participants

Items included: Premiums written and earned, losses, loss adjustment expenses, underwriting expenses, salvage and subrogation recoveries, assessments, taxes, and policyholder dividends

Effective: December 31, 2003, (amended and restated) as amended effective January 1, 2006, January 1, 2007, January 1, 2012, and July 1, 2015

Termination: Termination of any party's participation, or the entire agreement, may be accomplished by any party for any reason upon 12 months' prior written notice to the other parties.

Affiliated Assuming Contracts

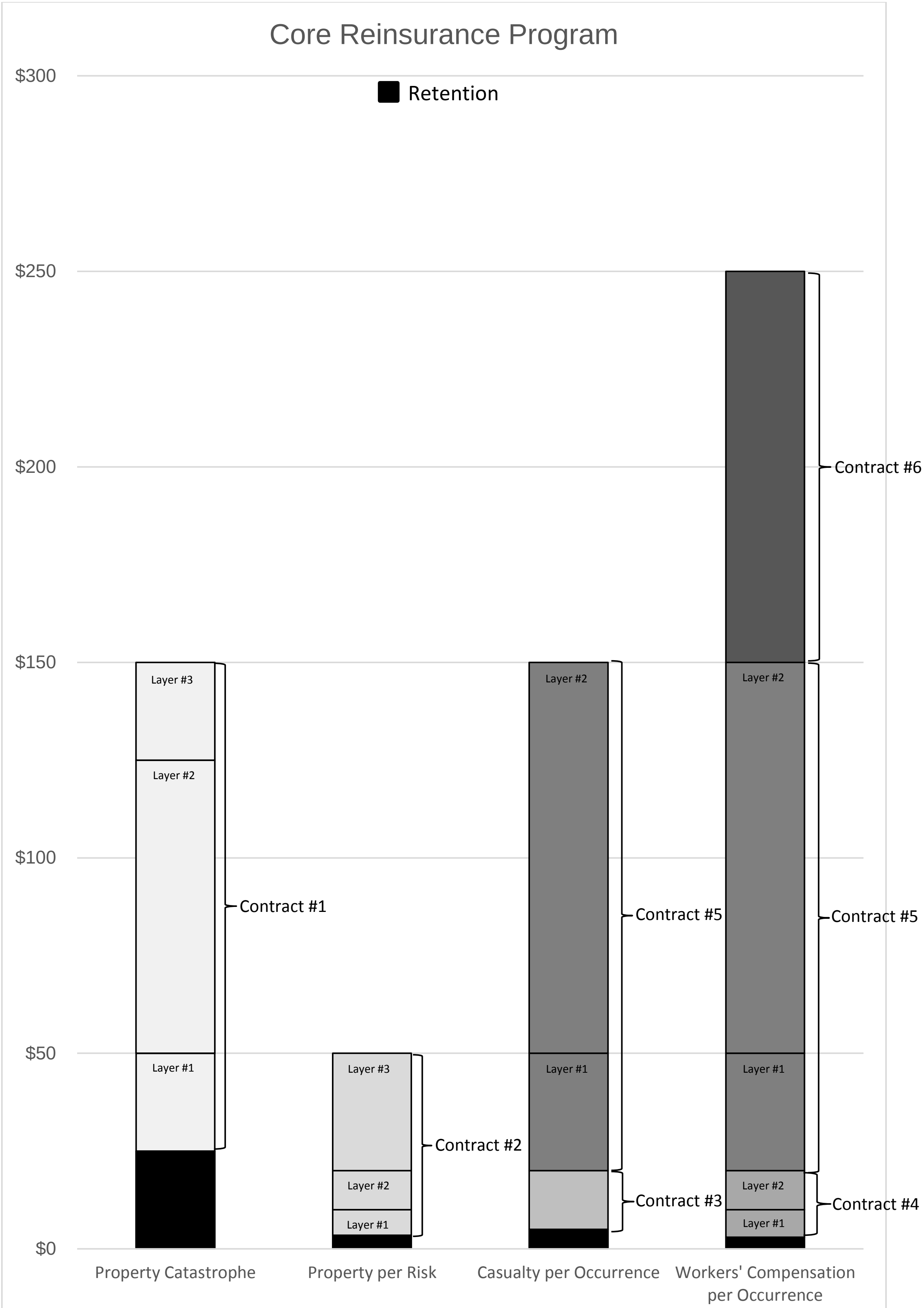
In addition to the pooling agreement above, Sentry Insurance has several 100% quota share agreements with a number of its subsidiaries.

1.	Type:	100% Quota Share
	Reinsured:	Sentry Lloyds of Texas
	Scope:	All business written and assumed by the reinsured.
	Retention:	None
	Coverage:	100% of losses, 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 premiums on business ceded pursuant to this treaty
	Ceding commission:	Reinsured is allowed a commission of 2% of all premium ceded pursuant to this treaty. The reinsurer will also reimburse the reinsured for expenses described in Articles I and II of the "Services Agreement" between the reinsurer and reinsured, which is outlined in section IV of this examination report.
	Effective date:	June 1, 1983, and amended effective June 1, 1983, August 20, 1984, August 11, 1999, and December 31, 2004
	Termination:	Either party may affect a termination or portfolio cancellation of this treaty with 90 days' written notice by registered or certified mail.
2.	Type:	100% Quota Share
	Reinsured:	Sentry Life Insurance Company
	Scope:	All business written and assumed by the reinsured classified as group accident and health excluding group long-term disability, blanket travel accident, and dental coverage on certain named policies.
	Retention:	None
	Coverage:	100% of losses and any or all other expenses incurred by or assessed against the reinsured arising from business covered by this contract
	Premium:	100% of gross premiums on ceded policies pursuant to this treaty
	Commission:	None annually; however, there was a $17 million commission paid to the reinsured on the effective date of this agreement, which was based on the present value of future profits of said business.

Effective date:	December 31, 1986, amended and restated January 1, 2012
Termination:	Either party may terminate with 90 days' prior written notice to any anniversary date

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.

e

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.

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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.

7. Type: Machine & Equipment Coverage Quota Share

Reinsurer: Factory Mutual Insurance Company

Scope: All boiler and machinery or mechanical equipment breakdown business written and assumed

Retention: None

Coverage: $100 million on any one risk

Commissions: 30% of boiler and machinery or electrical equipment breakdown premium ceded under this agreement (44% regarding Dealer Operations' premium)

50% of the net profit of business ceded under this contract (20% of Dealer Operations' earned premium, 30% of all other earned premium) minus losses incurred

Effective date: January 1, 2014, in perpetuity

Termination:	Either party may terminate this treaty with 90 days' prior written notice to the following days in any year by certified letter: April 1, July 1, October 1, and January 1.

8. | Type: | Cyber Risk and Breach Response Liability |
|---|---|
| Reinsurer: | Lloyd's of London – Beazley |
| Scope: | All cyber liability business written and assumed |
| Retention: | None |
| Coverage: | 100% of all net premiums on business ceded pursuant to this treaty |
| Commissions: | 40% of gross net written premium ceded to reinsurer.
30% profit share is available based on the amount income exceeds expenses. |
| Effective date: | January 1, 2016, to January 1, 2018, then annually renewed on January 1 |
| Termination: | Either party may terminate this treaty with 90 days' prior written notice. |

Nonaffiliated Assuming Contracts

The company 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 worker's 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.

Sentry Insurance a Mutual Company
Assets
As of December 31, 2018

	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	$3,601,809,669	$	$3,601,809,669
Stocks:			
Common stocks	2,691,949,751		2,691,949,751
Real estate:			
Occupied by the company	145,375,127		145,375,127
Properties held for the production of income	7,454,561		7,454,561
Cash, cash equivalents, and short-term investments	14,068,526		14,068,526
Other invested assets	1,225,941,670		1,225,941,670
Receivables for securities	8,891,865		8,891,865
Investment income due and accrued	31,193,458		31,193,458
Premiums and considerations:			
Uncollected premiums and agents' balances in course of collection	261,942,621	983,551	260,959,070
Deferred premiums, agents' balances, and installments booked but deferred and not yet due	323,360,403	517,716	322,842,687
Accrued retrospective premiums and contracts subject to redetermination	86,212,463	3,687,902	82,524,561
Reinsurance:			
Amounts recoverable from reinsurers	125,896,393		125,896,393
Current federal and foreign income tax recoverable and interest thereon	462,869		462,869
Net deferred tax asset	31,335,167		31,335,167
Guaranty funds receivable or on deposit	664,592		664,592
Electronic data processing equipment and software	146,348,475	133,257,744	13,090,731
Furniture and equipment, including health care delivery assets	19,474,884	19,474,884	
Receivable from parent, subsidiaries, and affiliates	40,191,553		40,191,553
Write-ins for other than invested assets:			
Aircraft	26,000,000	6,000,000	20,000,000
Cash surrender value of life insurance	19,417,608		19,417,608
Amounts billed & receivable under high deductible policies	19,336,481	173,896	19,162,585
Miscellaneous A/R	3,380,302	54,856	3,325,446
Prepaid surcharges	2,059,755		2,059,755
Guaranty fund surcharges receivable	429,415		429,415

	Assets	Nonadmitted Assets	Net Admitted Assets
Equities and deposits in pools and associations	371,908		371,908
Prepaid pension	40,387,616	40,387,616	
Prepaid expenses	10,431,061	10,431,061	
Other assets	3,785,797	3,785,797	
Total Assets	$8,888,173,990	$218,755,022	$8,669,418,968

Sentry Insurance a Mutual Company
Liabilities, Surplus, and Other Funds
As of December 31, 2018

Losses		$1,512,931,000
Reinsurance payable on paid loss and loss adjustment expenses		192,016,964
Loss adjustment expenses		355,649,548
Commissions payable, contingent commissions, and other similar charges		25,544,492
Other expenses (excluding taxes, licenses, and fees)		194,350,314
Taxes, licenses, and fees (excluding federal and foreign income taxes)		11,057,353
Unearned premiums		566,591,031
Advance premium		4,027,789
Dividends declared and unpaid:		
Policyholders		5,490,007
Ceded reinsurance premiums payable (net of ceding commissions)		140,590,206
Funds held by company under reinsurance treaties		5,776,866
Amounts withheld or retained by company for account of others		181,482,590
Remittances and items not allocated		2,608,575
Provision for reinsurance		736,723
Net adjustments in assets and liabilities due to foreign exchange rates		9,700,466
Payable to parent, subsidiaries, and affiliates		24,078,302
Payable for securities		16,237,017
Write-ins for liabilities:		
A/P – other		7,928,256
Escheat funds		4,656,658
Premium deficiency liability assumed		3,726,000
Recoverable on retro reinsurance contract		(1,603,434)
Liability for benefits		(10,943,883)
Total Liabilities		3,252,632,840
Unassigned funds (surplus)	$5,416,786,128	
Surplus as Regards Policyholders		5,416,786,128
Total Liabilities and Surplus		$8,669,418,968

Sentry Insurance a Mutual Company
Summary of Operations
For the Year 2018

Underwriting Income		
Premiums earned		$1,202,229,335
Deductions:		
Losses incurred	$744,435,668	
Loss adjustment expenses incurred	156,260,036	
Other underwriting expenses incurred	357,339,736	
Write-ins for underwriting deductions:		
Change in premium deficiency	486,000	
Total underwriting deductions		1,258,521,440
Net underwriting gain (loss)		(56,292,105)
Investment Income		
Net investment income earned	365,254,886	
Net realized capital gains (losses)	(33,784,980)	
Net investment gain (loss)		331,469,906
Other Income		
Net gain (loss) from agents' or premium balances charged off	(14,460,523)	
Finance and service charges not included in premiums	29,620,638	
Write-ins for miscellaneous income:		
Miscellaneous income	903,113	
Total other income		16,063,228
Net income (loss) before dividends to policyholders and before federal and foreign income taxes		291,241,029
Dividends to policyholders		3,847,641
Net income (loss) after dividends to policyholders but before federal and foreign income taxes		287,393,388
Federal and foreign income taxes incurred		49,789,352
Net Income		$ 237,604,036

Sentry Insurance a Mutual Company
Cash Flow
For the Year 2018

Premiums collected net of reinsurance			$1,222,466,614
Net investment income			310,309,611
Miscellaneous income			16,063,804
Total			1,548,840,029
Benefit- and loss-related payments		$ 674,901,485	
Commissions, expenses paid, and aggregate write-ins for deductions		413,464,116	
Dividends paid to policyholders		3,631,864	
Federal and foreign income taxes paid (recovered)		43,961,917	
Total deductions			1,135,959,382
Net cash from operations			412,880,647
Proceeds from investments sold, matured, or repaid:			
Bonds	$ 877,055,757		
Stocks	413,361,713		
Other invested assets	147,046,496		
Net gains (losses) on cash, cash equivalents, and short-term investments	(227,052)		
Miscellaneous proceeds	59,579		
Total investment proceeds		1,437,296,493	
Cost of investments acquired (long-term only):			
Bonds	1,012,957,957		
Stocks	328,337,878		
Real estate	68,216,420		
Other invested assets	227,403,957		
Miscellaneous applications	74,149,916		
Total investments acquired		1,711,066,127	
Net cash from investments			(273,769,634)
Cash from financing and miscellaneous sources:			
Other cash provided (applied)			(102,212,310)
Reconciliation:			
Net Change in Cash, Cash Equivalents, and Short-Term Investments			36,898,703
Cash, cash equivalents, and short-term investments:			
Beginning of year			(22,830,177)
End of Year			$ 14,068,526

Sentry Insurance a Mutual Company
Compulsory and Security Surplus Calculation
December 31, 2018

Assets			$8,669,418,968
Less security surplus of insurance subsidiaries			356,083,326
Less liabilities			3,252,632,840
Less assets in excess of investment limitations per s. 620.23 (4), Wis. Stat.*			131,162,426
Adjusted surplus			4,929,540,376
Annual premium:			
Individual accident and health	$ 20,974		
Factor	15%		
Total		$ 3,146	
Group accident and health	6,812,402		
Factor	10%		
Total		681,240	
Lines other than accident and health	1,231,958,999		
Factor	20%		
Total		246,391,800	
Compulsory surplus (subject to a minimum of $2 million)			247,076,186
Compulsory Surplus Excess (Deficit)			$4,682,464,190
Adjusted surplus (from above)			$4,929,540,376
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%)			271,783,805
Security Surplus Excess (Deficit)			$4,657,756,571

* Section 620.22 (9), Wis. Stat. (commonly known as the “basket clause”) allows insurers to invest an additional 5% of the first $500 million of assets plus 10% of the insurer’s assets exceeding $500 million in investments not otherwise permitted and not specifically prohibited by statute. The effect of these limitations is set forth in s. 620.21 (1), Wis. Stat., which states: “Assets may be counted toward satisfaction of the compulsory surplus requirement or security surplus standard only so far as they are invested in compliance with this chapter and applicable rules promulgated by the commissioner.”

Sentry Insurance a Mutual Company
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	$5,141,242,424	$4,723,513,024	$4,404,288,429	$4,164,416,078	$4,075,333,992
Net income	237,604,036	267,508,038	238,131,222	297,615,571	272,459,001
Change in net unrealized capital gains/losses	(35,117,600)	211,110,667	52,595,425	(43,539,974)	31,471,532
Change in net unrealized foreign exchange capital gains/losses	(4,186,789)	6,554,258	(62,813)	(7,439,556)	(5,782,351)
Change in net deferred income tax	(567,531)	(77,919,698)	591,760	(53,141,360)	116,336,348
Change in nonadmitted assets	(38,360,386)	(1,695,544)	12,019,727	(16,059,454)	19,724,755
Change in provision for reinsurance	(426,431)	1,142,966	(337,855)	3,042,685	(1,055,439)
Write-ins for gains and (losses) in surplus:					
Change in liability for benefits	116,598,406	11,028,713	16,287,130	59,394,439	(344,071,759)
Surplus, End of Year	$5,416,786,128	$5,141,242,424	$4,723,513,024	$4,404,288,429	$4,164,416,078

Sentry Insurance a Mutual Company
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. There were no unusual results.

	Ratio	2018	2017	2016	2015	2014
#1	Gross Premium to Surplus	43%	42%	43%	44%	44%
#2	Net Premium to Surplus	23	22	23	23	24
#3	Change in Net Premiums Written	9	5	7	2	-0
#4	Surplus Aid to Surplus	0	0	0	0	0
#5	Two-Year Overall Operating Ratio	73	73	71	68	71
#6	Investment Yield	4.9	4.7	4.8	5.0	5.5
#7	Gross Change in Surplus	5	9	7	6	2
#8	Change in Adjusted Surplus	5	9	7	6	2
#9	Liabilities to Liquid Assets	61	62	59	64	67
#10	Agents' Balances to Surplus	5	4	1	1	1
#11	One-Year Reserve Development to Surplus	-0	-0	-0	-1	-1
#12	Two-Year Reserve Development to Surplus	-0	-1	-1	-1	-2
#13	Estimated Current Reserve Deficiency to Surplus	1	0	-0	-3	-1

Growth of Sentry Insurance a Mutual Company

Year	Admitted Assets	Liabilities	Surplus as Regards Policyholders	Net Income
2018	$8,669,418,968	$3,252,632,840	$5,416,786,128	$237,604,036
2017	8,392,798,995	3,251,556,571	5,141,242,424	267,508,038
2016	7,587,291,179	2,863,778,155	4,723,513,024	238,131,222
2015	7,214,572,558	2,810,284,129	4,404,288,429	297,615,571
2014	6,981,318,965	2,816,902,887	4,164,416,078	272,459,001
2013	6,631,964,314	2,556,630,322	4,075,333,992	308,405,578

Year	Gross Premium Written	Net Premium Written	Premium Earned	Loss and LAE Ratio	Expense Ratio	Combined Ratio
2018	$2,328,828,408	$1,235,510,421	$1,202,229,335	74.9%	27.7%	102.6%
2017	2,149,147,632	1,138,365,218	1,119,569,744	74.8	28.6	103.4
2016	2,052,246,334	1,086,746,710	1,061,498,458	73.9	28.2	102.1
2015	1,916,377,011	1,014,247,445	985,412,076	72.7	27.4	100.1
2014	1,846,549,350	997,676,848	996,680,812	74.9	25.7	100.6
2013	1,852,063,561	999,657,151	974,445,631	76.3	24.8	101.1

Admitted assets grew 31%, liabilities grew 27%, and surplus grew 33% during the past five years. The surplus growth was largely driven by net investment income. The Sentry Group maintains a conservative investment portfolio driven by high-quality bonds. Sentry Insurance's investment gains have fluctuated between $287 million and $351 million for each of the past five years.

The company has consistently reported a net income, though it has fluctuated from a high of $308 million in 2013 to a low of $237 million in 2018. The Sentry companies typically operate at a slight underwriting loss that is more than offset by favorable net investment income results. While the companies have maintained conservative underwriting, investment, and reserving practices, the impact of these efforts is offset by recent technology investments and the overall downturn of the commercial auto segment of the insurance market.

The company saw an increase of 26% in gross premium written, 24% in net premium written, and 23% in premium earned over the past five years. The combined ratio rose to 103.4% in 2017 before falling to 102.6% in 2018. The Sentry companies were actively improving their combined ratio from 2013 through 2016 by discontinuing the standard personal line, increasing rates, and tightening underwriting standards. However, the combined ratio increased in 2017 and 2018 due to a modest uptick in the loss ratios driven by losses in the commercial auto market and ongoing investments in technology.

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 in general and the GL/PL liability segments in particular.

   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

Sentry Insurance a Mutual Company is the ultimate parent of a holding company system referred to as the Sentry Insurance Group. There are 29 companies in the Sentry Insurance Group, including insurance and non-insurance companies.

Sentry Insurance writes a wide range of property and casualty products, predominantly workers' compensation and automobile coverage. Sentry Insurance Group is organized into a number of business units representing different products.

Sentry Insurance has reported underwriting losses for many years yet continues to report net income through reliance on investment gains. Following their exit of the Standard Consumer Products business unit and increasing their focus on underwriting profitability as a part of the overall business growth plan, the company has improved its operating results, despite minor setbacks in 2017 and 2018 due to market performance and investments in technology. In the last five years, the Sentry Insurance Group has formed two new business units, Hortica and Regional, representing growth in the horticultural market and the small- and middle-market independent agents located in remote offices.

The current examination resulted in no recommendations. There were 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

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 Sentry Insurance and no immediate action was deemed necessary at that time of this report.