Report of the Examination of

Sentry Select Insurance 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
Madison, Wisconsin 53703

Commissioner:

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

SENTRY SELECT INSURANCE COMPANY
Stevens Point, Wisconsin

and this report is respectfully submitted.

I. INTRODUCTION

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

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

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

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

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

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

Independent Actuary's Review

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

II. HISTORY AND PLAN OF OPERATION

The company was originally incorporated as Fulton Fire Insurance Company under the laws of New York on August 1, 1929, and commenced business on August 30, 1929. On December 28, 1955, the company changed its name to Fulton Insurance Company. On May 8, 1969, Deere & Company acquired the company from Hanover Insurance Company of New York and changed the company's name to John Deere Insurance Company. The company redomesticated to the state of Illinois on December 31, 1982.

Sentry Insurance a Mutual Company (Sentry Insurance) acquired John Deere Insurance Company with the acquisition of Sentry Insurance Holding Company (then named John Deere Insurance Group, Inc.) on September 30, 1999, and changed the company's name to Sentry Select Insurance Company. On January 1, 2001, the company redomesticated to the state of Wisconsin. On December 30, 2005, all shares of Sentry Select were transferred from Sentry Insurance Holding Company to Sentry Insurance.

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

Texas	$ 75,086,861	12.37%
Illinois	49,153,189	8.10
Florida	46,901,823	7.73
California	38,349,178	6.32
Pennsylvania	24,622,730	4.06
Georgia	21,917,010	3.61
North Carolina	18,625,389	3.07
Ohio	17,946,732	2.96
New Jersey	17,673,218	2.91
Missouri	17,296,800	2.85
Alabama	15,519,269	2.56
All others	263,766,429	43.46
Total	$606,858,628	100.00%

The company is licensed in all states and the District of Columbia.

The following table is a summary of the net insurance premiums written by the company in 2018.

Line of Business	Direct Premium	Reinsurance Assumed	Reinsurance Ceded	Net Premium
Fire	$ 9,543,098	$ 3,598,072	$ 9,543,098	$ 3,598,072
Allied lines	25,422,809	7,197,468	25,422,809	7,197,468

Line of Business	Direct Premium	Reinsurance Assumed	Reinsurance Ceded	Net Premium
Homeowners multiple peril		17,433		17,433
Commercial multiple peril		834,940		834,940
Ocean marine		15,748		15,748
Inland marine	89,326,042	9,662,266	89,326,042	9,662,266
Earthquake	481,279	99,955	481,279	99,955
Group accident and health	9,551,520	1,261,556	9,551,520	1,261,556
Other accident and health		3,884		3,884
Workers' compensation	28,705,160	44,744,691	29,499,990	43,949,861
Other liability – occurrence	46,809,460	10,452,306	46,809,460	10,452,306
Other liability – claims made	3,712,898	348,049	3,712,898	348,049
Excess workers' compensation		301,923		301,923
Products liability – occurrence	10,095,061	3,575,967	10,095,061	3,575,967
Private passenger auto liability	8,256,468	75,923,306	8,256,468	75,923,306
Commercial auto liability	265,164,007	35,242,083	265,574,208	34,831,882
Auto physical damage	105,661,230	36,258,221	105,710,967	36,208,483
Fidelity	3,247,316	407,539	3,247,316	407,539
Surety	574,511	71,200	574,511	71,200
Burglary and theft	307,768	35,988	307,768	35,988
Reinsurance – non-proportional assumed liability		400		400
Total All Lines	$606,858,628	$230,052,994	$608,113,396	$228,798,226

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 Select directly underwrites business in the Direct Writer and Transportation 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 five members who are elected annually, each of whom is an officer of Sentry Insurance. Officers are elected at annual board meetings and are to hold those positions until the earlier of their resignation or removal by the board of directors. As inside directors, they receive no compensation specific to their service on the board.

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

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

Officers of the Company

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

Name	Office	2018 Compensation*
Scott A. Miller	President	$494,082
Michael J. Williams	Vice President	168,348
Kip J. Kobussen	Secretary	90,761
Todd M. Schroeder	Treasurer	75,471

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

Committees of the Board

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

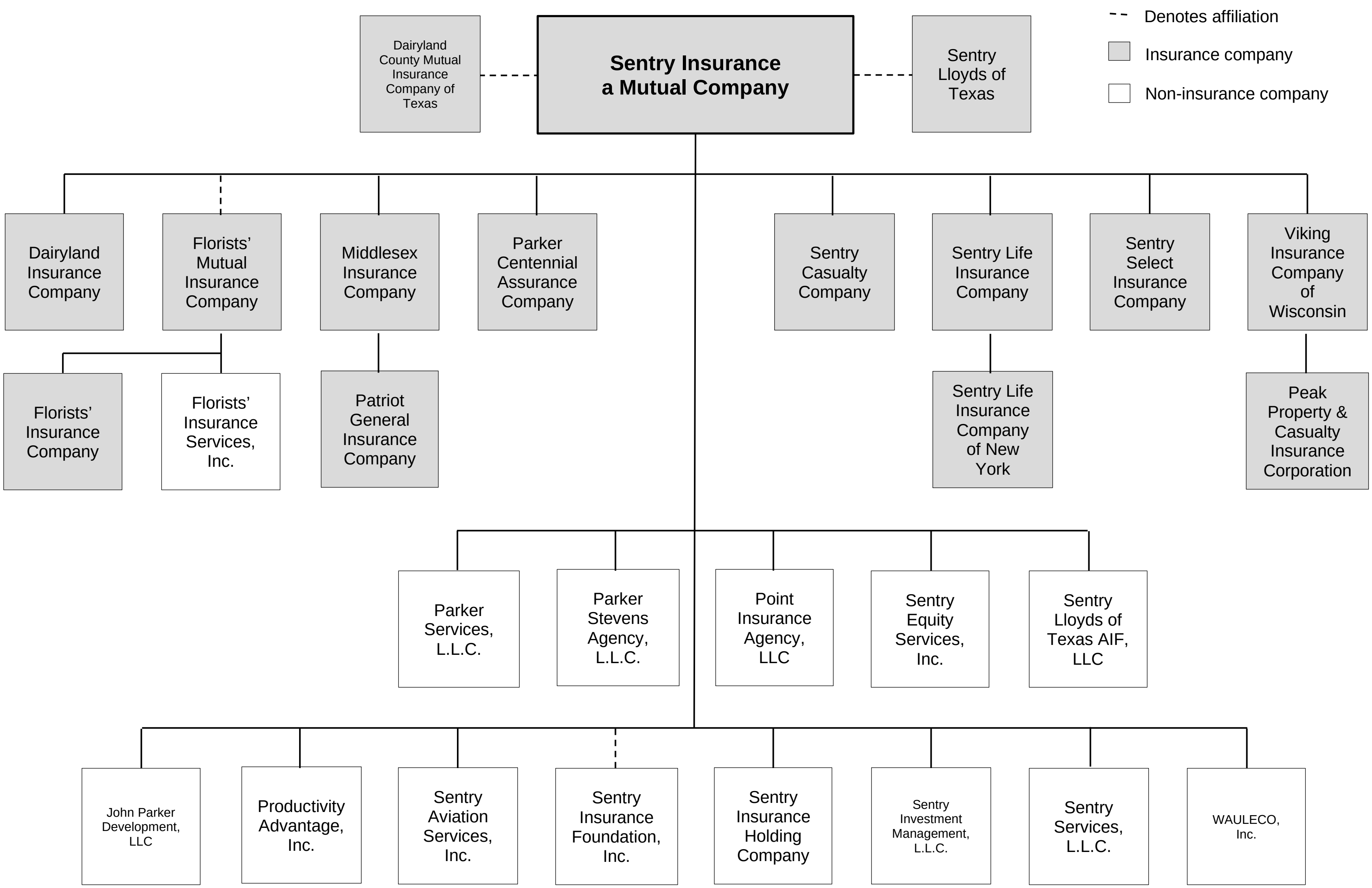
IV. AFFILIATED COMPANIES

Sentry Select is a subsidiary of Sentry Insurance. 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 Insurance Company is affiliated through a mutual affiliation agreement. A brief description of the entities that are directly affiliated with Sentry Select or have services or administration agreements with it follows the organizational chart. An examination report of Sentry Insurance a Mutual Company completed concurrently with this report includes a description of all affiliates in the holding company.

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

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

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


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

Insurance Subsidiaries and Affiliates

Sentry Insurance a Mutual Company

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

Noninsurance Subsidiaries and Affiliates

Sentry Investment Management, L.L.C.

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

Affiliated Agreements

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

Investment Advisory Agreement

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

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

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

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

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

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

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

Joint Investment Agreement

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

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

The business of the joint venture consists of investing and reinvesting funds contributed by the members in short-term obligations of banks, corporations, and the U.S. federal government with a maximum duration of 12 months. It functions in a manner analogous to a short-term bond mutual fund. Investment advisory services are provided by Sentry Investment Management, L.L.C. This office has directed all Wisconsin-domiciled Sentry companies to report their respective balances in SLAP as a one-line entry on Schedule DA – Part 1 (Short-Term Investments) and Schedule E – Part 2 (Cash Equivalents). In 2018, Sentry Select reported no SLAP short-term investments and $6,089,039 in SLAP money market mutual funds. Sentry Select received $82,621 interest from the SLAP money market mutual funds.

Tax Allocation Agreement

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

General Expense Allocation Agreement

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

Intercompany Settlement Policy

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

Service Agreement

Sentry Insurance has established a service agreement with Sentry Select, effective October 1, 1999, which has been amended and restated several times, with the latest amendment effective December 31, 2003. Under this agreement Sentry Insurance is to provide essentially all services required for Sentry Select's business operations. Expenses relating to the services provided under this agreement are to be allocated to the company by Sentry Insurance through the general expense allocation agreement (described earlier in this section of the report). Services may be terminated by either party by 30 days' written notice or at any time by mutual consent.

V. REINSURANCE

The company's reinsurance portfolio and strategy are described below. The company had numerous active and inactive ceded and assumed reinsurance treaties and arrangements in force at the time of this examination. All contracts reviewed by examiners contained proper insolvency provisions. Certain property and casualty companies in the Sentry Insurance Group participate in a few voluntary and involuntary reinsurance arrangements, serving predominantly the auto and workers' 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 workers' 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 Select 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 Insurance Company (Dairyland), Middlesex Insurance Company (Middlesex), Sentry Select, Viking Insurance Company of Wisconsin (Viking), Sentry Casualty Company (Sentry Casualty), and Florists' Mutual Insurance Company (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:

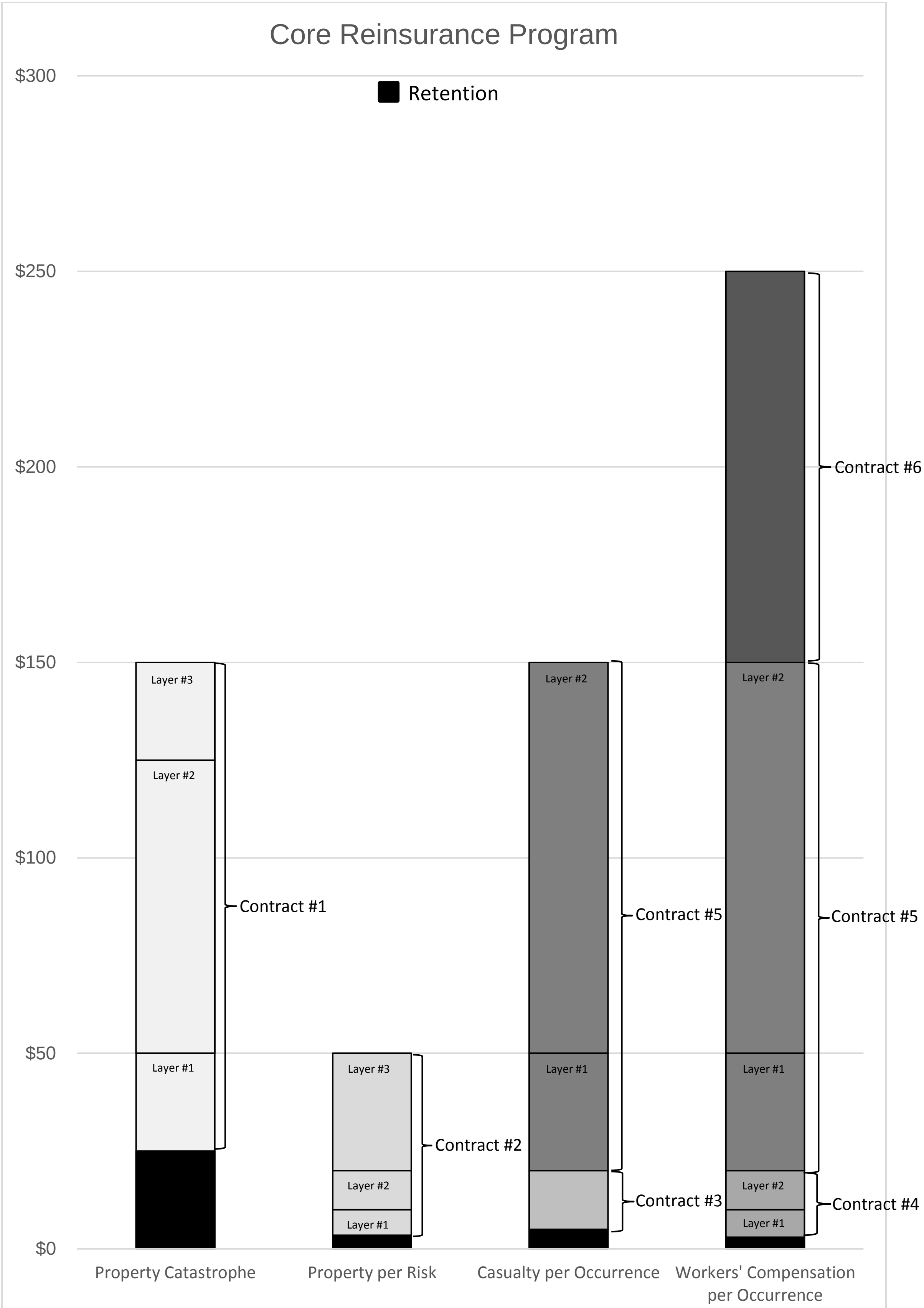
Participations:	As of January 1, 2019, participation was as follows:

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.

Nonaffiliated Ceding Contracts

The major nonaffiliated ceding contracts including a core reinsurance structure to cover most risk 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
Contract #2
Contract #3
Contract #4
Contract #5
Contract #6
Property Catastrophe
Property per Risk
Casualty per Occurrence
Workers' Compensation per Occurrence

1. Type: Property Catastrophe Excess of Loss

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

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

Scope: Property business with certain named exclusions

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

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

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

Commissions: None

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

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

2. Type: Property Per Risk Excess of Loss

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

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

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

Scope: Property business with certain named exclusions

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

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

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

Commissions: None

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

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

3. Type: Casualty Excess of Loss

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

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

Scope: Casualty business

Retention: Retention is $5 million.

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

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

Commissions: None

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

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

4. Type: Workers' Compensation Excess of Loss

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

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

Scope: Workers' compensation, including employers' liability

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

Coverage: The contract provides the following coverage.

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

Commissions: None

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

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

5. Type: Multiple Line Clash and Contingency Excess of Loss

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

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

Scope: All property and casualty business

Retention: Retention is $20 million for the first excess layer and $50 million for the second excess layer.

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

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

Commissions: None

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

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

6. Type: Workers' Compensation Catastrophe Excess of Loss

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

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

Scope: Workers' compensation, including employers' liability

Retention: Retention is $150 million.

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

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

Commissions: None

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

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

Nonaffiliated Assuming Contracts

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

VI. FINANCIAL DATA

The following financial statements reflect the financial condition of the company as reported to the Commissioner of Insurance in the December 31, 2018, annual statement. Adjustments made as a result of the examination are noted at the end of this section in the area captioned "Reconciliation of Surplus per Examination." Also included in this section are schedules that reflect the growth of the company, NAIC Insurance Regulatory Information System (IRIS) ratio results for the period under examination, and the compulsory and security surplus calculation.

Sentry Select Insurance Company
Assets
As of December 31, 2018

	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	$616,886,694	$	$616,886,694
Cash, cash equivalents, and short-term investments	6,089,039		6,089,039
Other invested assets	13,159,217		13,159,217
Investment income due and accrued	5,796,976		5,796,976
Premiums and considerations:			
Uncollected premiums and agents' balances in course of collection	37,329,546	182,139	37,147,407
Deferred premiums, agents' balances, and installments booked but deferred and not yet due	59,881,556	95,873	59,785,683
Accrued retrospective premiums and contracts subject to redetermination	15,965,271	682,945	15,282,326
Reinsurance:			
Amounts recoverable from reinsurers	73,085,378		73,085,378
Net deferred tax asset	10,115,218	925,380	9,189,838
Guaranty funds receivable or on deposit	123,073		123,073
Receivable from parent, subsidiaries, and affiliates	1,728,884		1,728,884
Write-ins for other than invested assets:			
Cash surrender value of life insurance	3,595,853		3,595,853
Amounts billed and receivable under high deductible policies	3,580,830	32,203	3,548,627
Prepaid surcharges	381,436		381,436
Guaranty fund surcharges receivable	177,346		177,346
Equities and deposits in pools and associations	49,215		49,215
Total Assets	$847,945,531	$1,918,540	$846,026,990

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

Losses		$280,172,407
Reinsurance payable on paid loss and loss adjustment expenses		24,840,185
Loss adjustment expenses		65,861,027
Commissions payable, contingent commissions, and other similar charges		4,730,462
Other expenses (excluding taxes, licenses, and fees)		35,628,528
Taxes, licenses, and fees (excluding federal and foreign income taxes)		2,047,658
Current federal and foreign income taxes		219,655
Unearned premiums		104,924,265
Advance premium		745,887
Dividends declared and unpaid:		
Policyholders		1,016,668
Ceded reinsurance premiums payable (net of ceding commissions)		75,533,157
Amounts withheld or retained by company for account of others		21,401,622
Remittances and items not allocated		1,977
Provision for reinsurance		394,823
Write-ins for liabilities:		
A/P - other		1,445,975
Escheat funds		862,344
Premium deficiency liability assumed		690,000
Recoverable on retro reinsurance contract		(296,932)
Total Liabilities		620,219,708
Common capital stock	$ 5,000,000	
Gross paid in and contributed surplus	26,850,000	
Unassigned funds (surplus)	193,957,282	
Surplus as Regards Policyholders		225,807,282
Total Liabilities and Surplus		$846,026,990

Sentry Select Insurance Company
Summary of Operations
For the Year 2018

Underwriting Income		
Premiums earned		$222,635,062
Deductions:		
Losses incurred	$137,858,458	
Loss adjustment expenses incurred	28,937,044	
Other underwriting expenses incurred	66,174,025	
Write-ins for underwriting deductions:		
Change in premium deficiency	90,000	
Total underwriting deductions		233,059,527
Net underwriting gain (loss)		(10,424,465)
Investment Income		
Net investment income earned	24,488,253	
Net realized capital gains (losses)	(1,325,025)	
Net investment gain (loss)		23,163,227
Other Income		
Net gain (loss) from agents' or premium balances charged off	(2,677,875)	
Finance and service charges not included in premiums	5,485,303	
Write-ins for miscellaneous income:		
Miscellaneous income (expense)	167,243	
Total other income		2,974,672
Net income (loss) before dividends to policyholders and before federal and foreign income taxes		15,713,434
Dividends to policyholders		712,526
Net income (loss) after dividends to policyholders but before federal and foreign income taxes		15,000,908
Federal and foreign income taxes incurred		3,067,765
Net Income		$ 11,933,143

Sentry Select Insurance Company
Cash Flow
For the Year 2018

Premiums collected net of reinsurance			$233,768,068
Net investment income			28,012,308
Miscellaneous income			2,974,672
Total			264,755,048
Benefit- and loss-related payments		$120,038,907	
Commissions, expenses paid, and aggregate write-ins for deductions		89,157,697	
Dividends paid to policyholders		672,567	
Federal and foreign income taxes paid (recovered)		3,449,447	
Total deductions			213,318,618
Net cash from operations			51,436,430
Proceeds from investments sold, matured, or repaid:			
Bonds	$135,366,246		
Stocks	10,031		
Other invested assets	8,558,772		
Miscellaneous proceeds	872		
Total investment proceeds		143,935,920	
Cost of investments acquired (long-term only):			
Bonds	180,334,434		
Other invested assets	575,222		
Miscellaneous applications	11,102,129		
Total investments acquired		192,011,786	
Net cash from investments			(48,075,866)
Cash from financing and miscellaneous sources:			
Dividends to stockholders		705,821	
Other cash provided (applied)		(9,941,497)	
Net cash from financing and miscellaneous sources			(10,647,318)
Reconciliation:			
Net Change in Cash, Cash Equivalents, and Short-Term Investments			(7,286,754)
Cash, cash equivalents, and short-term investments:			
Beginning of year			13,375,793
End of Year			$ 6,089,039

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

Assets			$846,026,990
Less liabilities			620,219,708
Adjusted surplus			225,807,282
Annual premium:			
Group accident and health	1,261,556		
Factor	10%		
Total		$ 126,155	
Lines other than accident and health	227,965,709		
Factor	20%		
Total		45,593,141	
Compulsory surplus (subject to a minimum of $2 million)			45,719,296
Compulsory Surplus Excess (Deficit)			$180,087,986
Adjusted surplus (from above)			$225,807,282
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%)			61,263,856
Security Surplus Excess (Deficit)			$164,543,426

Sentry Select Insurance 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	$226,737,184	$231,383,422	$231,964,279	$235,126,882	$227,478,206
Net income	11,933,143	11,381,714	11,580,719	11,875,255	18,974,197
Change in net unrealized capital gains/losses	(859,099)	(582,707)	214,750	(1,011,770)	60,834
Change in net unrealized foreign exchange capital gains/losses	(88,817)	92,545	23,933	(165,892)	(83,036)
Change in net deferred income tax	782,027	(3,978,945)	429,775	(25,094)	(4,157)
Change in nonadmitted assets	(905,527)	484,859	(12,228)	325,381	624,256
Change in provision for reinsurance	(291,629)	(43,705)	182,195	(160,483)	76,582
Dividends to stockholders	(11,500,000)	(12,000,000)	(13,000,000)	(14,000,000)	(12,000,000)
Surplus, End of Year	$225,807,282	$226,737,184	$231,383,422	$231,964,279	$235,126,882

Sentry Select Insurance 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	371%	331%	312%	283%	263%
#2	Net Premium to Surplus	101	93	87	81	77
#3	Change in Net Premiums Written	9	5	7	3	-0
#4	Surplus Aid to Surplus	1	1	1	1	0
#5	Two-Year Overall Operating Ratio	92	92	90	89	89
#6	Investment Yield	3.9	3.9	3.7	4.0	4.0
#7	Gross Change in Surplus	-0	-2	-0	-1	3
#8	Change in Adjusted Surplus	-0	-2	-0	-1	3
#9	Liabilities to Liquid Assets	89	89	73	72	70
#10	Agents' Balances to Surplus	16	14	4	4	5
#11	One-Year Reserve Development to Surplus	-1	-2	-1	-3	-4
#12	Two-Year Reserve Development to Surplus	-2	-3	-3	-5	-4
#13	Estimated Current Reserve Deficiency to Surplus	2	2	-1	-12	-3

Growth of Sentry Select Insurance Company

Year	Admitted Assets	Liabilities	Surplus as Regards Policyholders	Net Income
2018	$846,026,990	$620,219,708	$225,807,282	$11,933,143
2017	826,641,871	599,904,687	226,737,184	11,381,714
2016	706,950,590	475,567,168	231,383,422	11,580,719
2015	679,070,451	447,106,171	231,964,279	11,875,255
2014	658,607,814	423,480,932	235,126,882	18,974,197
2013	641,304,426	413,826,220	227,478,206	12,369,072

Year	Gross Premium Written	Net Premium Written	Premium Earned	Loss and LAE Ratio	Expense Ratio	Combined Ratio
2018	$836,911,622	$228,798,226	$222,635,062	74.9%	27.7%	102.6%
2017	751,205,082	210,808,374	207,327,730	74.8	28.6	103.4
2016	721,664,636	201,249,391	196,573,789	73.9	28.2	102.1
2015	655,701,001	187,702,004	180,844,990	72.7	27.5	100.2
2014	618,177,897	181,395,791	181,214,693	74.9	25.7	100.6
2013	581,486,199	181,755,846	177,171,933	76.3	24.8	101.1

The company's surplus remained consistent at around $225 million since the previous examination. Sentry Select reported net income in each year under examination and paid $62.5 million in stockholders' dividends to its parent, Sentry Insurance, over the past five years. During the period under examination gross premium increased 44% and net premium increased 26%. The increase in gross premium was mainly due to an increase in direct writings, specifically in the commercial automobile liability and physical damage lines of business. The combined ratio remained slightly above 100%, increasing in 2016 and 2017 before beginning to decrease in 2018. Net investment gains over the period offset the effects of combined ratios that exceeded 100%, as the company recorded net income in each of the last five years.

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 Select Insurance Company is a subsidiary of Sentry Insurance a Mutual Company. Sentry Insurance 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 noninsurance companies.

Sentry Select directly underwrites business in the Sentry Insurance Group's Direct Writers and Transportation business units. Sentry Select's reported surplus remained consistent over the examination period. Net investment gains over the period have offset the effects of combined ratios that exceeded 100%, as the company recorded net income in each of the last five years.

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

IX. SUMMARY OF COMMENTS AND RECOMMENDATIONS

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

X. ACKNOWLEDGMENT

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

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

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

Respectfully submitted,

Diana M. Havitz

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 Select, and no immediate action was deemed necessary at the time of this report.