Report of the Examination of

United Wisconsin Insurance Company

New Berlin, Wisconsin

As of December 31, 2018

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State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

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

Wisconsin.gov

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

April 30, 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:

UNITED WISCONSIN INSURANCE COMPANY
New Berlin, Wisconsin

and this report is respectfully submitted.

I. INTRODUCTION

The previous examination of United Wisconsin Insurance Company (the company or UWIC) was conducted in 2016 and 2017 as of December 31, 2015. The current examination covered the intervening period ending December 31, 2018, and included a review of such 2019 transactions as deemed necessary to complete the examination.

The examination of the company was conducted concurrently with the examination of Accident Fund Group. The Michigan Department of Insurance and Financial Services (DIFS) acted in the capacity as the lead state for the coordinated examinations. Work performed by the Michigan DIFS 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 Michigan DIFS. 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.

II. HISTORY AND PLAN OF OPERATION

The company was organized in 1957 as Health Insurance Corporation. The name was changed to United Wisconsin Insurance Company effective January 1, 1983. Below is a brief history of the company since inception:

1957	United Wisconsin Insurance Company (UWIC) was formed under Chapter 611 of the Wisconsin Statutes. At the time, UWIC was a subsidiary of Blue Cross Blue Shield of Wisconsin.
2002	UWIC became a 100% owner of United Heartland, Inc. (UHI). UHI was subsequently dissolved (all assets/liabilities were absorbed by UWIC).
2002	UWIC became a 100% owner of United Heartland of Illinois, Inc. (UHIL). UHIL was a Managing General Agent that sold and administered workers' compensation products. UHIL was subsequently dissolved (all assets/liabilities were absorbed by UWIC).
2004	UWIC entered into an assumption reinsurance agreement with an affiliate, Unicare Life & Health Insurance Company (UNICARE) to transfer a number of its A&H policies.
2004	UWIC entered into an assumption reinsurance agreement, transferring its behavioral health policies to an unaffiliated company, Abri Health Plan, Inc.
2005	UWIC entered into an assumption reinsurance agreement, transferring its remaining A&H policies to UNICARE.
2005	Accident Fund Insurance Company of America (AFICA) acquired 100% of UWIC. AFICA is a member of the Blue Cross Blue Shield of Michigan health care system.

Blue Cross Blue Shield of Michigan Mutual Insurance Company (BCBSM), the ultimate controlling entity, is a nonprofit health care organization and the third largest Blue plan in the United States based on member population. BCBSM has wholly owned and minority investments in subsidiaries, organized into two business units: Emerging Markets and Health Plan Business. All legal entities of the Emerging Markets division were transferred to the ownership of Emergent Holdings, Inc. (Emergent Holdings) following its formation in 2018. Emergent Holdings is a wholly owned subsidiary of BCBSM and owns 100% of the outstanding stock of Accident Fund Holdings, Inc. (Accident Fund Holdings). Accident Fund Insurance Company of America (AFICA) is 100% owned by Accident Fund Holdings.

AFICA owns five wholly owned insurance subsidiaries: Accident Fund General Insurance Company (AFGIC), Accident Fund National Insurance Company (AFNIC), CompWest Insurance Company (CWIC), United Wisconsin Insurance Company (UWIC), and Third Coast Insurance Company (TCIC). AFICA and its insurance subsidiaries collectively operate as the AF Group. Additional information on each insurance entity, as well as key affiliates of the AF Group, Accident Fund Holdings, and Emergent Holdings, is included in the Affiliated Companies section of this examination report.

Emergent Holdings is comprised of three distinct business units, one of which is the AF Group. The Corporate Functions division of Emergent Holdings provides oversight and services to all subsidiaries of Emergent Holdings. These services include Corporate Risk, Corporate Audit and Advisory Services (CAAS), Human Resources, and Performance Management and Finance. The Corporate Functions division of Emergent Holdings serves as a strategic controller for the AF Group, with centralized functions intended to ensure stability and establish consistency. The holding company structure includes a blend of leadership specifically focused on AF Group and those for the entire Emerging Markets Division.

For Generally Accepted Accounting Principles (GAAP) purposes, the AF Group is broadly organized into three segments, each comprised of multiple brands (discussed in detail below). The Workers' Compensation segment consists of four distinct workers' compensation brands: Accident Fund, United Heartland, CompWest, and Third Coast Underwriters. The Alternative Market segment consists of two brands: AF Specialty and Assigned Risk Solutions. The Multiline segment consists of two brands: AF Global Capital and Fundamental Underwriters. The brand names noted above can utilize the paper of multiple AF Group insurance companies, meaning the brand names are not specifically related to or an indication of a specific AF Group company (see table on next page).

Gross Written Premium (000s)		AF Group Brands						
		Accident Fund	United Heartland	CompWest	Third Coast Underwriters	Alternative Markets	Multiline	Total
AF Group Companies	AFICA	$468,487	$73,367	$ 0	$50,487	$ 84,288	$ 0	$ 676,629
	AFGIC	232,728	66,791	0	34,971	7,224	0	341,714
	AFNIC	198,195	40,662	0	9,323	1,454	0	249,634
	CWIC	10,974	0	142,047	0	3	0	153,024
	TCIC	0	0	0	0	0	10,001	10,001
	UWIC	0	149,755	0	0	117,536	0	267,291
	AF Group	$910,384	$330,574	$142,047	$94,781	$210,505	$10,001	$1,698,293

The Workers' Compensation segment uses the paper of one or more legal insurance entities and produces workers' compensation business through independent insurance agencies and brokerages. The Accident Fund brand focuses on small-to-mid-sized businesses in 19 core states, primarily in the Midwest and Southeast. The United Heartland brand focuses on mid-to-large-sized business in the education, health care, long-term care facilities, manufacturing, nonprofits, social services, and wholesale industries. The CompWest brand focuses on California and certain Western states, targeting health care, hospitality, manufacturing, professional services, retail and wholesale services, and artisan contractors. The Third Coast Underwriters brand focuses on complex and challenging underserved markets (e.g., construction, non-trucking transportation, agriculture, etc.) in Midwestern, Gulf, and certain Southeastern states.

The Alternative Markets segment provides fronting services through its AF Specialty brand and servicing carrier business through its Assigned Risk Solutions brand. The Alternative Markets segment is focused on fee-based income (whereby the direct writing company cedes the bulk of the underwriting risk). The AF Group has been a servicing carrier for the Michigan and Indiana assigned risk pools since 2017 through the Assigned Risk Solutions brand. The AF Specialty brand specializes in fronting arrangements related to workers' compensation, property, general liability, and commercial auto program business.

The Multiline brand focuses exclusively on non-workers' compensation lines of business, including business written on a surplus lines basis. AF Global Capital (which is both a legal entity and a brand) participates as a capital provider to several Lloyd's syndicates. Fundamental Agency, Inc., formed in 2017, is a managing general underwriter that was created to distribute a surplus lines commercial auto products written on TCIC's paper. The managing general underwriter operations started-up in 2018 under the Fundamental Underwriters brand.

Each brand is led by a brand president and operates independent field underwriting and claims functions (with AF Group oversight). Each AF Group company has its own board of directors, which consists of officers of the AF Group. These individual boards are overseen by the board of directors of Emergent Holdings, which consists of BCBSM officers and independent directors.

In 2018, United Wisconsin Insurance Company wrote direct premium in the following states:

Wisconsin	$ 53,877,254	20.7%
California	53,354,475	20.5
Illinois	23,008,068	8.8
Texas	22,199,327	8.5
Florida	14,197,773	5.4
Iowa	10,594,296	4.1
Nebraska	8,649,241	3.3
Georgia	7,658,919	2.9
Indiana	6,150,063	2.4
New Jersey	6,032,605	2.3
All others	55,113,133	21.1
Total	$260,835,154	100.0%

The company is licensed in the District of Columbia and all states except Hawaii. UWIC is authorized to write a full spectrum of commercial property and casualty coverages. UWIC's mix of business includes workers' compensation and commercial auto business, written directly and through fronting arrangements, as of December 31, 2018.

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
Workers' compensation	$240,148,032	$6,457,763	$246,605,795	$0
Commercial auto liability	20,687,122	0	20,687,122	0
Total All Lines	$260,835,154	$6,457,763	$267,292,917	$0

III. MANAGEMENT AND CONTROL

Board of Directors

The board of directors of the company consists entirely of internal management. The five-member board of directors is elected annually to serve a one-year term. Officers are elected at the board's annual meeting. Members of the company's board of directors may also be members of other boards of directors in the holding company group. The board members currently 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
Elizabeth R. Haar Dexter, Michigan	Executive Vice President and President – Emerging Markets, BCBSM Emergent Holdings, Inc.	2020
Lisa M. Corless Okemos, Michigan	President - AF Group Accident Fund Holdings, Inc.	2020
Stephan J. Cooper Pewaukee, Wisconsin	President United Wisconsin Insurance Company	2020
Anthony G. Phillips* Highland, Michigan	EVP, Performance Management, Chief Risk Officer and Chief Actuary Emergent Holdings, Inc.	2020
John S. Roberts** East Lansing, Michigan	Senior VP of Administration COBX, Co.	2020

* Mr. Phillips replaced Mr. Frank Freund as treasurer and director of United Wisconsin Insurance Company, effective December 6, 2018. Mr. Freund retired after a long career as treasurer and director for all AF Group companies. Mr. Phillips now serves as treasurer and director for all AF Group companies.

** Mr. Roberts replaced Mr. Steven Reynolds as director of United Wisconsin Insurance Company, effective June 6, 2019. Mr. Reynolds retired after a long career as secretary and director for all AF Group companies. Mr. Roberts now serves as a director for all AF Group companies.

Officers of the Company

The officers serving at the time of this examination are shown below. The 2018 compensation represents their total compensation for all companies they serve within the Accident Fund Group.

Name	Office	2018 Compensation
Stephan J. Cooper	President – United Wisconsin Insurance Company (United Heartland)	$1,509,645
Anthony G. Phillips*	Treasurer – United Wisconsin Insurance Company	1,374,332
Steven E. Reynolds**	Secretary – United Wisconsin Insurance Company	702,527

*Mr. Phillips replaced Mr. Frank Freund as treasurer and director of Third Coast Insurance Company, effective December 6, 2018. Mr. Freund retired after a long career as treasurer and director for all AF Group companies. Mr. Phillips now serves as treasurer and director for all AF Group companies.

**Mr. Reynolds retired as secretary of the AF Group companies, effective June 6, 2019, and was replaced by Ms. Bobbi Jo Elliott.

Committees of the Board

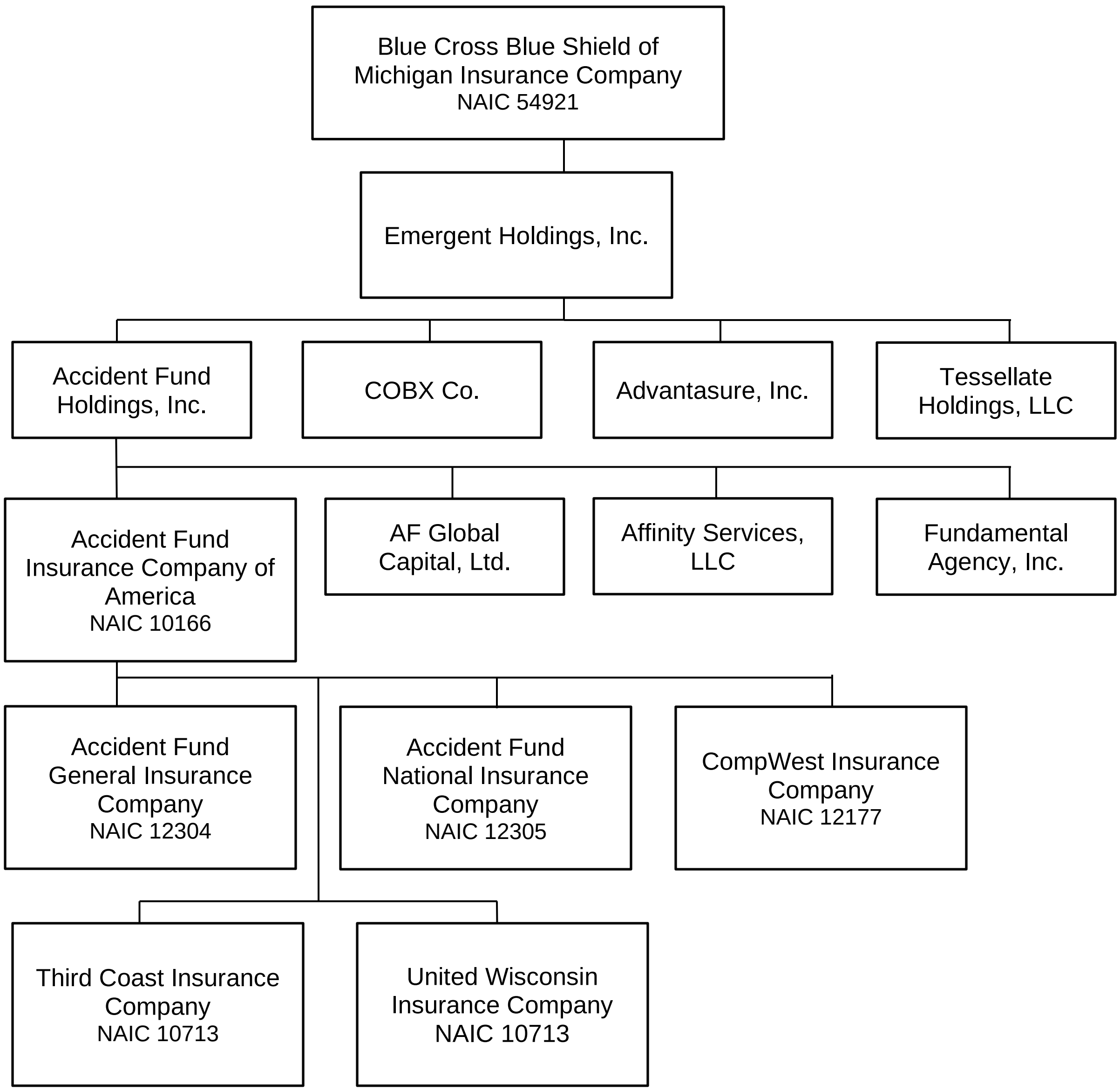
The company's bylaws allow for the formation of certain committees by the board of directors, but there were no committees appointed by the board at the time of the examination. The Audit Committee of Emergent Holdings, Inc., serves as the Audit Committee for UWIC. The five members of the Emergent Holdings' Audit Committee include:

Audit Committee
Timothy McCarthy, Chair
Gregory Sudderth, Vice Chair
Patrick Devlin
James Agee
Richard Whitmer

IV. AFFILIATED COMPANIES

United Wisconsin Insurance Company is a member of a holding company system. The abbreviated organizational chart below depicts the relationships among the affiliates in the group. A brief description of the significant affiliates follows the organizational chart.

Organizational Chart
As of December 31, 2018



Accident Fund Insurance Company of America

Accident Fund Insurance Company of America (AFICA) provides a wide array of property and casualty products, including workers' compensation, property, general liability, and commercial auto. AFICA is domiciled in the state of Michigan and is licensed to write business in all 50 states and the District of Columbia. As of December 31, 2018, the audited financial statements of AFICA reported assets of $3,779,604,000, liabilities of $2,842,224,000, and capital and surplus of $937,380,000. Operations for 2018 produced net income of $219,148,000.

Accident Fund General Insurance Company

Accident Fund General Insurance Company (AFGIC) provides a wide array of property and casualty products, including workers' compensation, property, general liability, and commercial auto. AFGIC is domiciled in the state of Michigan and is licensed to write business in 48 states and the District of Columbia. As of December 31, 2018, the audited financial statements of AFGIC reported assets of $250,959,000, liabilities of $142,744,000, and capital and surplus of $108,215,000. Operations for 2018 produced net income of $533,000.

Accident Fund National Insurance Company

Accident Fund National Insurance Company (AFNIC) provides a wide array of property and casualty products, including workers' compensation, property, general liability, and commercial auto. AFNIC is domiciled in the state of Michigan and is licensed to write business in 48 states and the District of Columbia. As of December 31, 2018, the audited financial statements of AFNIC reported assets of $186,690,000, liabilities of $103,470,000, and capital and surplus of $83,220,000. Operations for 2018 produced a net loss of $90,000.

CompWest Insurance Company

CompWest Insurance Company (CWIC) provides workers' compensation and other liability coverages primarily in California. CWIC is domiciled in the state of California and is licensed to write business in 12 states. As of December 31, 2018, the audited financial statements of CWIC reported assets of $232,415,000, liabilities of $89,928,000, and capital and surplus of $142,487,000. Operations for 2018 produced net income of $4,864,000.

Third Coast Insurance Company

Third Coast Insurance Company (TCIC) provides commercial auto as a surplus lines product in six states as of December 31, 2018. TCIC is licensed in three states and is eligible to write surplus lines in 41 states and the District of Columbia. As of December 31, 2018, the audited financial statements of TCIC reported assets of $23,183,000, liabilities of $3,481,000, and capital and surplus of $19,702,000. Operations for 2018 produced net income of $390,000.

COBX Co.

COBX Co. provides shared and corporate services (e.g., accounting, internal audit, etc.) to its affiliated entities. As of December 31, 2018, the audited financial statements of COBX, Co., reported assets of $57,666,000, liabilities of $158,379,000, and total shareholders' equity of $(100,713,000). Operations for 2018 produced a net loss of $15,819.

Fundamental Agency, Inc.

Fundamental Agency, Inc., was formed in 2018 to facilitate Third Coast Insurance Company's ability to write risks on a non-admitted basis in certain jurisdictions. As of December 31, 2018, the unaudited GAAP financial statements of Fundamental reported assets of $2,172,193, liabilities of $264,604, and total shareholders' equity of $1,907,589. Operations for 2018 produced a net loss of $114,113.

Agreements with Affiliates

Affiliated reinsurance agreements are discussed in the "Reinsurance" section of the examination report. A summary of the other agreements with affiliates follows:

Intercompany Services Agreement

BCBSM, Accident Fund Holdings, AFICA, and its subsidiaries have been party to an intercompany services agreement, pursuant to which the parties provide to and/or receive from one another, various services upon request. Services to be provided include, but are not limited to financial accounting, underwriting, communications, marketing, claims administration, information systems, and general management/administrative services. The agreement was amended, effective February 15, 2018, to include Fundamental Agency, Inc. and was further amended effective January 1, 2019 Year to include Emergent Holdings.

Tax Allocation Agreement

BCBSM, Accident Fund Holdings, AFICA, and its subsidiaries have been party to a tax sharing agreement whereby each party is allocated an appropriate portion of the overall consolidated federal and state income tax liability. The agreement was amended, effective February 15, 2018, to include Fundamental Agency, Inc. and was further amended effective January 1, 2019, to include Emergent Holdings.

V. REINSURANCE

The company's reinsurance portfolio and strategy are described below. The contracts contained proper insolvency provisions.

The examination identified several issues related to the reporting of reinsurance contracts in the company's statutory statements, which are discussed in Section VII under the caption "Summary of Current Examination Results."

Affiliated Ceding Contracts

1. Type: Intercompany Reinsurance and Pooling Agreement

   Reinsurer: Accident Fund Insurance Company of America and CompWest Insurance Company

   Scope: Accident Fund Insurance Company of America is the Lead Company in the Intercompany Reinsurance and Pooling Agreement. The participating Affiliated Companies cede to the Lead Company, and the Lead Company accepts and reinsures, 100% of the underwriting liabilities of the Affiliated Companies related to all insurance and reinsurance policies issued by or on behalf of the Affiliated Companies. The Lead Company cedes to the Affiliated Companies, and the Affiliated Companies accept, assume and reinsure their respective percentages (shown below) of (a) all underwriting liabilities ceded to the Lead Company and (b) the Lead Company's net retained underwriting liabilities.

   Participation:

AFICA	99.0%
AFGIC	0.0%
AFNIC	0.0%
CWIC	1.0%
TCIC	0.0%
UWIC	0.0%

   Commissions: None

   Effective date: January 1, 2017

   Expiration: Agreement shall continue until termination by the consent of all parties hereto, or otherwise terminated as of the close of any quarter of a calendar year upon 12 months' notice in writing by any party.

Nonaffiliated Ceding Contracts

1. Type: Workers' Compensation Excess of Loss

   Reinsurer: Workers' Compensation Reinsurance Association (Association)

Cedents:	Accident Fund General Insurance Company, Accident Fund Insurance Company of America, Accident Fund National Insurance Company, and United Wisconsin Insurance Company (collectively the Member)
Scope:	The Association will reinsure the Member's Minnesota workers' compensation liability and shall indemnify the Member for 100% of the amount of statutory Ultimate Loss arising out of each occurrence compensable under Minn. Stat. Ch. 176 to the extent the Ultimate Loss exceeds the Member's Retention Limitation in effect at the time of the loss occurrence and subject to the terms and conditions of the Enabling Act, the Plan, and the Operating Rules.
Retention:	The Member shall select the low, high, super, or jumbo retention level for each calendar year. Each retention level has a corresponding retention dollar limit, as determined in accordance with the requirements of Minn. Stat. § 79.34, subd. 2. The retention levels may be changed annually on January 1.
Coverage:	The reinsurance provided by the Association shall cover only benefits under Minn. Stat. Ch. 176 which are paid by the Member.
Commissions:	None
Effective date:	January 1, 2019
Expiration:	January 1, 2020
Termination:	The Commissioner of Insurance or Commissioner of Commerce may, upon notice to a Member, take any appropriate action against a Member pursuant to procedures available to the Commissioner of Insurance or Commissioner of Commerce. An insurer may voluntarily withdraw membership in the Association only upon ceasing to be authorized by the Commissioner of Commerce to transact workers' compensation insurance in Minnesota.
Reinstatement:	The contract is an annual requirement for insurers to transact workers' compensation business in the state of Minnesota.

2. Type: Workers' Compensation Catastrophe Excess of Loss

Reinsurer:

Name	First	Second	Third
Allied World Assurance Company, Ltd.	0.000%	0.000%	4.500%
Arch Reinsurance Company	0.000	3.000	3.000
Aspen Insurance UK Limited	10.000	7.000	4.675
BGS Services (Bermuda) Limited on behalf of Lloyd's Syndicate 2987	0.000	3.000	5.000
Cincinnati Insurance Company	0.000	5.000	2.500

Name	First	Second	Third
Endurance Specialty Insurance, Ltd.	0.000	6.000	2.000
Hamilton Re, Ltd.	0.000	2.000	3.000
Hannover Rueck SE	7.000	8.000	0.000
Lloyd’s Syndicate 1084	5.000	0.000	22.000
Lloyd’s Syndicate 4472	10.000	5.000	5.000
Lloyd’s Syndicate 2014	7.000	7.000	5.000
Lloyd’s Syndicate 1945	0.000	2.500	1.000
Lloyd’s Syndicate 1414	4.000	5.000	4.500
Lloyd’s Syndicate 5678	4.000	4.000	1.500
Lloyd’s Syndicate 609	5.000	6.500	7.500
Lloyd’s Syndicate 2987	8.000	14.000	7.125
Lloyd’s Syndicate 566	4.500	0.000	1.500
Lloyd’s Syndicate 1729	0.000	1.250	1.000
Lloyd’s Syndicate 435	0.000	1.000	0.000
Lloyd’s Syndicate 1955	0.000	1.750	3.000
Lloyd’s Syndicate 4444	0.000	0.000	2.700
Markel Global Re	0.000	5.000	2.500
Munich Reinsurance America, Inc.	0.000	2.000	3.000
Odyssey Reinsurance Company	9.000	5.000	1.750
Partner Reinsurance Company of the U.S.	5.000	0.000	0.000
Safety National Casualty Corporation	12.500	0.000	0.000
Insurance Company of the West	9.000	0.000	0.000
Tokio Millennium Re AG	0.000	6.000	6.250
Total	100.000%	100.000%	100.000%

Cedent(s): The reinsurance contract is issued to Accident Fund Insurance Company of America, as the leader of the intercompany pooling arrangement, on behalf of itself and each of its subsidiaries. The term “Affiliated Companies” refers to all insurance entities of the AF Group.

Scope: The contract indemnifies the Affiliated Companies in respect of business classified as Workers’ Compensation, Excess Workers’ Compensation and/or Employers Liability in force at the inception of the contract, as well as all liability assumed by the Affiliated Companies pursuant to the agreements between the Affiliated Companies and SUNZ Insurance Company. Reinsurance coverage is provided in two sections: Section A and Section B. Reinsurance coverage shall apply only to those loss occurrences commencing during the term of the contract which are reported to the Reinsurer prior to January 1, 2027. The Reinsurer shall have no liability for loss occurrences commencing after the expiration of the contract. However, at the Affiliated Companies’ option, the Reinsurer shall remain liable in respect of policies in force at expiration, until the earlier of the expiration or next renewal of such policies.

Section A: As respects losses not otherwise covered under Section B below, the Reinsurer shall be liable for:

Layer	Affiliated Companies' Retention Ultimate Net Loss in respect of each and every loss occurrence	Reinsurer's Limit of Liability Ultimate Net Loss in respect of each and every loss occurrence
First	$10,000,000	$10,000,000
Second	$20,000,000	$20,000,000
Third	$40,000,000	$160,000,000

Section B: The Reinsurer shall be liable in the aggregate in respect of each and every loss occurrence arising from an act or acts of terrorism for:

Layer	Affiliated Companies' Retention Ultimate Net Loss in respect of each and every loss occurrence Ultimate Net Loss in the aggregate	Reinsurer's Limit of Liability Ultimate Net Loss in respect of each and every loss occurrence Ultimate Net Loss in the aggregate
First	$10,000,000	$10,000,000
Second	$20,000,000	$20,000,000
Third	$40,000,000	$160,000,000

Sections A and B: The maximum annual recovery for all loss occurrences during the term is shown below:

Layer	Maximum Annual Recovery
First	$40,000,000
Second	$60,000,000
Third	$480,000,000

Premium: The premium to be paid to the Reinsurer shall be calculated at the rates set out below multiplied by the Subject Net Earned Premium of the Affiliated Companies for the term of the contract, subject to the annual minimum and deposit premiums stated below:

Layer	Rate	Deposit Premium	Minimum Premium
First	0.2926%	$5,251,600	$4,201,280
Second	0.0680%	$1,220,500	$976,400
Third	0.2591%	$4,650,000	$3,720,000

Commissions: None

Effective date: January 1, 2019

Expiration: January 1, 2020

Termination: The Affiliated Companies may terminate a subscribing Reinsurer's percentage share in the contract at any time by giving written notice to the subscribing Reinsurer in the event of certain circumstances (e.g., insolvency of reinsurance).

Reinstatement: As respects the First Layer of Section A, the limit of coverage will be reinstated from the time of the occurrence of the loss. For the first $10,000,000 so reinstated, the reinstatement is without charge. For the next $10,000,000 reinstatement, the Affiliated

Companies agree to pay an additional premium calculated at pro rata by multiplying 50% by the Reinsurer's premium for the term of the contract. For the next $10,000,000 so reinstated, the reinstatement is without charge. The Reinsurer's liability shall never exceed the Reinsurer's limit of liability in respect of any one loss occurrence and shall be further limited to $40,000,000 during the term of the contract.

3. Type: Commercial Automobile Excess of Loss

Reinsurer:

Name	First	Second
Lloyd's Syndicate 435	25.00%	25.00%
Lloyd's Syndicate 1945	5.00	4.00
Lloyd's Syndicate 609	5.00	5.00
Lloyd's Syndicate 1955	8.00	7.00
Lloyd's Syndicate 1084	10.00	10.00
Lloyd's Syndicate 4472	9.00	8.00
Lloyd's Syndicate 2987	25.00	23.00
Lloyd's Syndicate 4020	6.00	5.00
Lloyd's Syndicate 566	7.00	4.00
Lloyd's Syndicate 4444	0.00	5.00
Lloyd's Syndicate 1414	0.00	4.00
Total	100.00%	100.00%

Cedent(s): The reinsurance contract is issued to Accident Fund Insurance Company of America, as the leader of the intercompany pooling arrangement, on behalf of itself and each of its subsidiaries. The term "Affiliated Companies" refers to all insurance entities of the AF Group.

Scope: The contract indemnifies the Affiliated Companies in respect of business classified as Commercial Automobile Liability (including but not limited to Personal Injury Protection, Uninsured and Underinsured Motorist, Medical Payments, and General Liability when written in conjunction with Commercial Automobile coverage), and other lines classified by the Affiliated Companies as liability and required under Section 30 of the Motor Carrier Act of 1980, written or renewed during the term of the contract and underwritten for the Affiliated Companies by MGU Fundamental Underwriters. At the expiration of the contract, the Reinsurer shall remain liable for all policies covered by the contract that are in force at expiration, until the termination, expiration or renewal of such policies, whichever occurs first, plus any extended reporting periods.

Coverage: For each Excess Layer of reinsurance, the Reinsurer shall be liable for the Ultimate Net Loss over and above the initial Ultimate Net Loss retention as shown below:

Layer	Affiliated Companies' Retention Ultimate Net Loss in respect of each and every coverage, each and every loss occurrence, each and every policy	Reinsurer's Limit of Liability Ultimate Net Loss in respect of each and every coverage, each and every loss occurrence, each and every policy	 Ultimate Net Loss in respect of all loss occurrences on risks attaching during the term of the contract
First	$1,000,000	$4,000,000	$12,000,000
Second	$5,000,000	$5,000,000	$15,000,000

However, where Ultimate Net Loss for a loss occurrence is $1,000,000 or less, Loss Adjustment Expense shall be subject to a Cost Franchise Deductible of $175,000. Loss Adjustment Expense equal to or exceeding the Cost Franchise Deductible shall be included in Ultimate Net Loss and covered under the contract. This only applies in respect of those loss occurrences involving one insured.

Premium

As respects each Excess Layer, the Affiliated Companies shall pay the Reinsurer a deposit premium as shown below. The adjusted premium to be paid to the Reinsurer for the reinsurance provided under each Excess Layer shall be calculated at the rates set out below multiplied by the Affiliated Companies' Gross Net Written Premium Income with respect to the business covered.

Layer	Premium Rate	Deposit Premium	Minimum Premium
First	2.200%	$777,730	$544,411
Second	1.000%	$350,000	$245,000

Commissions: None

Effective date: October 1, 2019

Expiration: October 1, 2020

Termination:

The Affiliated Companies may terminate a subscribing Reinsurer's percentage share in the contract at any time by giving written notice to the subscribing Reinsurer in the event of certain circumstances.

Reinstatement:

The limit of coverage shall be reinstated from the time of the occurrence of the loss, and for each amount so reinstated, the Affiliated Companies agree to pay an additional premium calculated at pro rata of the Reinsurer's premium for the Excess Layer for the term of the contract. Nevertheless, the Reinsurer's liability shall not exceed the applicable limit in respect of any one loss occurrence, nor the applicable limit in respect of all loss occurrences on risks attaching during the term of the contract, as set forth above.

4. Type: Commercial Automobile Quota Share

Reinsurer:

Reinsurer	Participation
Lloyd's Syndicate 4472	4.00%
Lloyd's Syndicate 1955	0.72
MS Amlin AG	12.50
Odyssey Reinsurance Co	5.78
Swiss Reinsurance America Corp	32.50
Corinthian Re SPC	27.00
Total	82.50%

Cedent(s): United Wisconsin Insurance Company and any of the subsidiary companies which are now or may hereafter come under the management of the above company.

Scope: The contract is to indemnify the company in respect of policies classified by the company as NAFTA Commercial Automobile Liability Insurance produced by Paramount General Agency (Paramount). The coverage provided shall only apply to those policies written for commercial vehicles that enter and exit through the same port of entry in the state of Texas. Coverage is not provided to any commercial vehicle operating outside the Continental U.S.A. At termination, reinsurance coverage shall remain in force for all policies covered at the date of termination until their natural expiration, but in no event beyond 12 months plus odd time not to exceed 18 months after each such termination.

Retention: The company shall retain a 17.50% co-participation net and unreinsured elsewhere, other than intra-company or intra-group pooling or risk-sharing arrangements. The limits of liability of the company with respect to any one policy, any one occurrence shall not exceed $1,000,000. The underinsured motorist limit is $85,000 and Personal Injury Protection is $2,500.

Coverage: The Reinsurer shall be liable to indemnify and reinsure the company for an 82.50% quota share of the company's Net Loss each and every policy, each and every loss occurrence. In addition, the Reinsurer shall be liable for 82.50% of Allocated Loss Adjustment Expense. The maximum liability to the Reinsurer under the contract, including Extra Contractual Obligations and Loss in Excess of Policy Limits and/or Declaratory Judgment Expenses shall not exceed 200% of the net ceded premium received by the Reinsurer (after all commissions).

Premium: The company shall pay to the Reinsurer 82.50% of the Net Subject Written Premium on all policies ceded, subject to a maximum of $45,375,000 of Net Subject Written Premium.

Commissions: The Reinsurer shall allow the company a provisional ceding commission of 28.55% of the company's Net Subject Written Premium ceded to the Reinsurer for the business covered. The company shall allow return commission on return premiums at the same rate. The provisional ceding commission will be deemed as 28.55%, at a 55.00% Loss Ratio. For each 1.00% point difference in Loss Ratio below 55.00% the ceding commission is adjusted upward by 0.95% of the Net Subject Written Premium with a maximum ceding commission of 38.05% at a 45.00% or lower Loss Ratio. For each 1.00% difference in Loss Ratio above 55.00% of Net Subject Written Premium, the ceding commission is adjusted downward by 0.55% of Net Subject Written Premium with a minimum ceding commission of 22.50% at a 66.00% Loss Ratio.

Effective date: January 1, 2019

Expiration: December 31, 2019

Termination: The contract may be terminated by either the company or Reinsurer by providing at least 90 days written notice. Further, either party may terminate the contract at any time by giving the other party not less than 30 days prior written notice upon the unavailability of the president of Paramount, whether by retirement, death, disability or failure otherwise to personally manage the affairs of Paramount which are subject to the contract.

Reinstatement: None

5. Type: Workers' Compensation Quota Share

Reinsurer:

Reinsurer	Participation
Axis Reinsurance Company	7.50%
Swiss Reinsurance America Corp	20.00
Tokio Millenium Re AG	10.00
Transatlantic Reinsurance Corp	7.00
General Reinsurance Corp	7.00
United Insurance Company	3.50
XL Reinsurance America Inc.	30.00
Total	85.00%

Cedent(s): United Wisconsin Insurance Company

Scope: The contract indemnifies the company in respect to all business classified as statutory Workers Compensation and Employers Liability that is bound, issued or renewed on or after the effective date and produced and underwritten by Arrowhead General Insurance Agency (Arrowhead) pursuant to the agency agreement, entered into by and between the company and/or its affiliates. The Reinsurer agrees in all respects to follow the underwriting fortunes of the company with respect to all insurance liabilities and obligations the company arising out of or in connection with the business written by Arrowhead. Any business or credit risk assumed by the company shall remain the responsibility of the company unless specified otherwise within the contract. The Reinsurer shall remain liable for all policies in force at the termination of the contract; however, the liability of the Reinsurer shall cease with respect to losses occurring subsequent to the first anniversary, natural expiration or cancellation of each policy ceded, whichever first occurs, but in no event for any losses occurring more than 12 months after the date of termination of the contract.

Retention:	The company shall retain at least a 15% part of 100% share in the interests and liabilities.
Coverage:	The Reinsurer agrees to accept a 100% quota share participation of the company's first $1,000,000 of Ultimate Net Loss, each loss occurrence, of the business reinsured under the contract. The Reinsurer shall not be liable for more than their proportional Quota Share of 200% of Subject Net Earned Premium.
Premium:	The company shall cede to Reinsurer its proportionate share of the Gross Net Written Premium Income on all policies written or renewed with effective dates on or after the effective date of the contract, less the ceding commission.
Commissions:	The Reinsurer shall allow the company a provisional and minimum ceding commission of 33.764% on the collected Gross Net Written Premium Income ceded, which commission shall be adjusted according to the Loss Ratio (Adjustment Period Losses as of the date of calculation divided by Subject Net Earned Premium as of the date of calculation). Any return ceding commission for the Adjustment Period shall be calculated and a statement shall be prepared. The provisional and minimum ceding commission of 33.764%, shall be payable at a Loss Ratio of 61.00%, or greater. If the Loss Ratio is less than 61.00%, the provisional ceding commission of 33.764% shall be increased by 0.65% for every 1.00% decrease in the Loss Ratio until a ceding commission of 39.614% is payable at a Loss Ratio of 52.00%. The Reinsurer shall pay: 1) 50% of any adjusted commission shown due after 36 months after expiration 2) 75% of any adjusted commission shown due after 48 months after expiration, less any previously paid 3) 100% of any adjusted commission shown due after 60 months after expiration, and as of every 12-month period thereafter
Adjustment Period:	Adjustment Period means the period May 1, 2018, through December 31, 2019. As soon as practicable after 36 months following the expiration of the contract, and after the end of each 12-month period thereafter until all losses subject hereto have been finally settled, the company shall calculate and report adjusted commissions.
Adjusted Losses:	Adjustment Period Losses (Adjusted Losses) is the Reinsurer's portion of payments made on losses occurring on policies with an effective date during the Adjustment Period, plus the company's estimate of the Reinsurer's liability for outstanding losses, valued as of the date of the commission adjustment statement, occurring on policies with an effective date during the Adjustment Period. For purposes for only calculating the

adjusted commissions, the following Loss Development Factors will be used:

Months after expiration date of contract	Ultimate LDF Incurred
36	1.257
48	1.169
60	1.114
72	1.081
84	1.060

Effective Date: May 1, 2018

Expiration: January 1, 2020

Termination: The contract may be terminated at any time by mutual agreement of the parties.

Reinstatement: None

6. Type: Workers' Compensation Excess of Loss

Reinsurer:

Reinsurer	Layer 1st Excess	Layer 2nd Excess
Church Mutual Ins. Co.	3.40%	0.00%
Employers Mutual Casualty Company	3.40	0.00
Farm Bureau Mutual Ins. Co. of Michigan	3.40	0.00
Kentucky Farm Bureau Insurance Company	3.40	0.00
Motorists Mutual Ins. Co.	3.40	0.00
Starstone National Ins. Co.	25.00	5.00
XL Reinsurance America Inc.	30.00	30.00
Lloyd's Syndicate 4472	15.00	17.00
Lloyd's Syndicate 1955	8.00	8.00
Lloyd's Syndicate 5678	5.00	5.00
Lloyd's Syndicate 1084	0.00	20.00
Lloyd's Syndicate 2987	0.00	2.50
Lloyd's Syndicate 435	0.00	12.50
Total	100.00%	100.00%

Cedent: United Wisconsin Insurance Company

Scope: The contract indemnifies the company in respect of policies classified as statutory Workers Compensation and Employers Liability that are bound, issued, or renewed on or after the effective date hereof and produced and underwritten by Arrowhead General Insurance Agency (Arrowhead). The Reinsurer agrees in all respects to follow the underwriting fortunes and settlements of the company with respect to all insurance liabilities and obligations of the company arising out of or in connection with the business written by Arrowhead, subject to the terms and conditions of the contract. Any business or credit risk assumed by the company shall remain the responsibility of the company unless specified otherwise within the contract. The Reinsurer shall remain liable for all policies covered by the contract that are in force at expiration or termination, until the termination, expiration or renewal of such policies, not to extend beyond 12 months plus odd time. Such runoff period, including odd time, shall not exceed 18 months.

Section A: As respects losses not otherwise covered under Section B below, the Reinsurer shall be liable in respect of each and every Loss Occurrence, for 100% of the Ultimate Net Loss over and above the initial Ultimate Net Loss Retention as shown below:

Layer	Company's Retention Ultimate Net Loss in respect of each and every loss occurrence	Reinsurer's Limit of Liability Ultimate Net Loss in respect of each and every loss occurrence
First	$1,000,000	$4,000,000
Second	$5,000,000	$5,000,000

Section B: The Reinsurer shall be liable in the aggregate in respect of each and every loss occurrence arising from an act or acts of terrorism, for 100% of the Ultimate Net Loss in the aggregate in excess of the initial Ultimate Net Loss Retention as shown below:

Layer	Company's Retention Ultimate Net Loss in respect of each and every loss occurrence Ultimate Net Loss in the aggregate	Reinsurer's Limit of Liability Ultimate Net Loss in respect of each and every loss occurrence Ultimate Net Loss in the aggregate
First	$1,000,000	$4,000,000
Second	$5,000,000	$5,000,000

Sections A and B: The maximum annual recovery for all loss occurrences during the term is shown below:

Layer	Maximum Annual Recovery
First	$16,000,000
Second	$15,000,000

Premiums: The premium to be paid to the Reinsurer shall be calculated at the rates set out below multiplied by the Subject Net Earned Premium of the company for the term of the contract, subject to the annual minimum and deposit premium stated below:

Layer	Premium Rate	Deposit Premium	Minimum Premium
First	4.75%	$2,446,000	$1,834,688
Second	1.40%	$721,000	$540,750

Commissions: None

Effective date: May 1, 2018

Expiration:	January 1, 2020
Termination:	The company or the Reinsurer may terminate the contract at any time by giving the other party 30 days' prior written notice upon the happening of any one of certain circumstances (e.g. a legal authority orders the other party to cease writing business).
Reinstatement:	As respects the First Layer of Section A, the limit of coverage will be reinstated for the first $8,000,000 so reinstated, the reinstatement is without charge. For the next $4,000,000 so reinstated, the company agrees to pay an additional premium calculated at pro rata by multiplying 100% of the Reinsurer's adjusted premium for the term of the contract. Nevertheless, the Reinsurer's liability shall never exceed the Reinsurer's limit of liability in respect of any one loss occurrence and shall be further limited to $16,000,000 during the term of the contract. As respects the Second Layer of Section A, the limit of coverage will be reinstated from the time of occurrence of the loss, and for each amount so reinstated, the company agrees to pay an additional premium calculated at pro rata by multiplying 100% of the Reinsurer's adjusted premium for the term of the contract. Nevertheless, the Reinsurer's liability shall never exceed the Reinsurer's limit of liability in respect of any one loss occurrence and shall be further limited to $15,000,000 during the term of the contract.

7.	Type:	Workers' Compensation Quota Share
	Reinsurer:	SUNZ Insurance Company (SUNZ)
	Cedent:	United Wisconsin Insurance Company
	Scope:	The company will issue workers' compensation insurance policies in the company's name and will then reinsure such policies with SUNZ on a 100% uncapped quota share of the company's gross losses, allocated loss adjustment expense and unearned premium reserves associated with business written through the fronting arrangement (Program Agreements). The Program Agreements include this quota share reinsurance agreement, the related Trust Agreement, an Underwriting Agency Agreement with Sunz Insurance Solutions, LLC, and a Third Party Claims Administration Agreement with Next Level Administrators, LLC. Sunz Insurance Solutions, LLC, and Next Level Administrators are affiliates of SUNZ.
	Retention:	None
	Coverage:	Sunz will reinsure on an indemnity basis a 100% quota share of the company's Gross Liabilities under the Program Policies. The company and SUNZ have entered into an Underwriting Agency Agreement with Sunz Insurance Solutions, LLC for the marketing and sale of the Program Policies. SUNZ shall be responsible for the payment of amounts due Sunz Insurance Solutions, LLC for services rendered under the Underwriting Agency Agreement.

The company and SUNZ have entered into a Third Party Claims Administration Agreement with Next Level Administrators, LLC to administer and pay claims under the Program Policies on behalf of the company. SUNZ shall be liable for the payment of amounts due Next Level Administrators, LLC for services rendered and for the funding of claims payments.

Premiums: The company shall cede 100% of the Gross Net Written Premium under the Program Policies, less the Ceding Commission.

Commissions: SUNZ shall allow the company, within 30 calendar days of the end of each month, a ceding commission in an amount equal to the sum total of 1) 5% of Gross Direct Written Premium, and 2) Premium Taxes paid or payable by the company on Gross Written Premium paid and received under the Program Policies in the period, including retaliatory taxes.

Effective date: October 1, 2017

Expiration: December 31, 2018

Termination: The contract is terminated immediately upon written notice by either party if 1) an order of supervision, suspension, conservation, rehabilitation or liquidation is entered against the counterparty, 2) if a receiver or supervisor is appointed for the counterparty, or 3) if the counterparty's domiciliary insurance regulator determines that the counterparty is insolvent or has risk based capital below its Company Action Level under the NAIC's Risk-Based Capital calculation. By the company on not less than 60 days' prior written notice, or shorter period if required by the regulatory agency, to Reinsurer if termination is ordered or credit is disallowed by the Michigan DIFS, OCI, or any other regulatory agency of competent jurisdiction. Further, the contract may be terminated by SUNZ on not less than 45 calendar days' prior written notice if the company fails to maintain its Required Rating (no lower than "A-" from Ambest).

Reinstatement: The contract will renew for successive one-year renewal terms unless either party provides written notice of nonrenewal not less than 180 calendar days prior to the next renewal data.

8. Type: Workers' Compensation Excess of Loss

Reinsurer:

	Layer	
Reinsurer	1st Excess	2nd Excess
Lloyd's Syndicate 1084	30.00%	17.50%
Lloyd's Syndicate 435	2.50	10.00
Lloyd's Syndicate 4444	1.50	1.50
Lloyd's Syndicate 2987	7.50	7.00
Lloyd's Syndicate 1414	8.50	3.00
Lloyd's Syndicate 2001	5.00	5.00
Lloyd's Syndicate 4472	2.50	4.50
Lloyd's Syndicate 1955	5.00	5.00
Lloyd's Syndicate 5678	2.00	2.00

Reinsurer	Layer 1st Excess	Layer 2nd Excess
Lloyd's Syndicate 566	2.00	1.00
Lloyd's Syndicate 2014	2.00	2.00
Lloyd's Syndicate 1945	2.00	2.00
Lloyd's Syndicate 1686	2.50	2.50
Aspen Insurance UK Ltd.	23.00	20.00
Hannover Rueck SE	4.00	2.00
Markel Global Re Co	0.00	10.00
BRIT Global 2887 BM	0.00	5.00
Total	100.00%	100.00%

Cedent: United Wisconsin Insurance Company

Scope: The contract is to indemnify the company in respect of policies classified as Workers' Compensation, Excess Workers' Compensation, and/or Employers Liability in force at the inception of the contract, or written or renewed during the term of the contract by or on behalf of the company by Sunz Insurance Solutions, LLC as well as all liability assumed by the company pursuant to a reinsurance agreement between the company and SUNZ Insurance Company. The Reinsurer shall have no liability for loss occurrences commencing after the expiration of the contract. Reinsurance under the contract shall apply to those loss occurrences commencing during the term of the contract which are reported to the Reinsurer prior to January 1, 2027.

Section A: As respects losses not otherwise covered under Section B below, the Reinsurer shall be liable in respect of each and every loss occurrence, for 100% of the Ultimate Net Loss over and above the initial Ultimate Net Loss Retention as shown below:

Layer	Company's Retention Ultimate Net Loss in respect of each and every loss occurrence which in turn is in excess of original policy deductibles (deemed always in place/non-aggregating on an each and every loss basis)	Reinsurer's Limit of Liability Ultimate Net Loss in respect of each and every loss occurrence
First	$1,500,000	$3,500,000
Second	$5,000,000	$5,000,000

Section B: The Reinsurer shall be liable in the aggregate in respect of each and every loss occurrence arising from an act or acts of terrorism, for 100% of the Ultimate Net Loss in the aggregate in excess of the initial Ultimate Net Loss Retention as shown below:

Layer	Company's Retention Ultimate Net Loss in respect of each and every loss occurrence which in turn is in excess of original	Reinsurer's Limit of Liability Ultimate Net Loss in respect of each and every

	policy deductibles (deemed always in place/non-aggregating on an each and every loss basis)	loss occurrence and in the annual aggregate
First	$1,500,000	$3,500,000
Second	$5,000,000	$5,000,000

Sections A and B: The maximum annual recovery for all loss occurrences during the term is shown below:

Layer	Maximum Annual Recovery
First	$38,500,000
Second	$25,000,000

Notwithstanding the above, no claims shall be made under the First Layer of the contract unless and until the subject Ultimate Net Loss arising out of loss occurrences commencing during the term of the contract exceeds an annual aggregate deductible of $3,500,000 of Ultimate Net Loss otherwise recoverable under the First Layer.

Premiums: The premium to be paid to the Reinsurer shall be calculated at the rates set out below multiplied by the Subject Net Earned Premium of the company for the term of the contract, subject to the annual minimum and deposit premium stated below:

Layer	Premium Rate	Deposit Premium	Minimum Premium
First	1.99%	$6,965,000	$5,572,000
Second	1.65%	$5,775,000	$4,620,000

Commissions: None

Effective date: January 1, 2019

Expiration: January 1, 2020

Termination: The company may terminate a subscribing Reinsurer's percentage share in the contract at any time by giving written notice to the subscribing Reinsurer in the event of certain circumstances.

Reinstatement: As respects the First Layer of Section A, the limit of coverage will be reinstated for an additional premium calculated at 50% of the reinsurance premium for the term of the contract. The company shall pay the 50% reinstatement premium for up to two full limits reinstated and shall have eight free full reinstated limits thereafter. Nevertheless, the Reinsurer's liability shall never exceed the Reinsurer's limit of liability in respect of any one loss occurrence and, subject to the limit in respect of any one loss occurrence, shall be further limited to $38,500,000 during the term of the contract by reason of any and all covered claims.

As respects the Second Layer of Section A, the limit of coverage will be reinstated for an additional premium calculated at 50% of the reinsurance premium for the term of the contract. The company shall pay the 50% reinstatement premium for up to two full limits reinstated and shall have eight free full reinstated limits thereafter. Nevertheless, the Reinsurer's liability shall never exceed the Reinsurer's limit of liability in respect of any one loss occurrence and, subject to the limit in respect of any one loss occurrence, shall be further limited to $38,500,000 during the term of the contract by reason of any and all covered claims.

Nonaffiliated Assuming Contracts

1. Type: Workers' Compensation Excess of Loss

   Reinsured: SUNZ Insurance Company (SUNZ)

   Scope: The contract is to indemnify the Reinsured in respect of policies classified as Workers' Compensation, Excess Workers' Compensation and/or Employers Liability in force at the inception of the contract, or written or renewed during the term of the contract by or on behalf of SUNZ by Sunz Insurance Solutions, LLC. Reinsurance shall apply only to those loss occurrences commencing during the term of the contract which are reported to the company prior to January 1, 2027.

   Section A: As respects losses not otherwise covered under Section B below, the company shall be liable in respect of each and every loss occurrence, for 100% of the Ultimate Net Loss over and above the initial Ultimate Net Loss Retention as shown below:

Layer	Reinsured's Retention Ultimate Net Loss in respect of each and every loss occurrence which in turn is in excess of original policy deductibles (deemed always in place/non-aggregating on an each and every loss basis)	Company's Limit of Liability Ultimate Net Loss in respect of each and every loss occurrence
First	$1,500,000	$3,500,000
Second	$5,000,000	$5,000,000

Section B: The company shall be liable in the aggregate in respect of each and every loss occurrence arising from an act or acts of terrorism, for 100% of the Ultimate Net Loss in the aggregate in excess of the initial Ultimate Net Loss Retention as shown below:

Layer	Reinsured's Retention Ultimate Net Loss in respect of each and every loss occurrence which in turn is in excess of original policy deductibles (deemed always in place/non-aggregating on an each and every loss basis)	Company's Limit of Liability Ultimate Net Loss in respect of each and every loss occurrence and in the annual aggregate
First	$1,500,000	$3,500,000
Second	$5,000,000	$5,000,000

Sections A and B: The maximum annual recovery for all loss occurrences during the term is shown below:

Layer	Maximum Annual Recovery
First	$38,500,000
Second	$25,000,000

Notwithstanding the above, no claims shall be made under the First Layer of the contract unless and until the subject Ultimate Net Loss arising out of loss occurrences commencing during the Term of the contract exceeds an annual aggregate deductible of $3,500,000 of Ultimate Net Loss otherwise recoverable under the First Layer.

Premiums: The premium to be paid to the company shall be calculated at the rates set out below multiplied by the Subject Net Earned Premium of the Reinsured for the term of the contract, subject to the annual minimum and deposit premium stated below:

Layer	Premium Rate	Deposit Premium	Minimum Premium
First	1.99%	$6,965,000	$5,572,000
Second	1.65%	$5,775,000	$4,620,000

Commissions: None

Effective date: January 1, 2019

Expiration: January 1, 2020

Termination: The Reinsured may terminate the contract at any time by giving written notice to the company in certain specified circumstances.

2. Type: Catastrophe Workers' Compensation Excess of Loss

Reinsured: SUNZ Insurance Company

Scope: The contract is to indemnify the Reinsured in respect of policies classified as Workers' Compensation, Excess Workers' Compensation and/or Employers Liability in force at the inception of the contract, or written or renewed during the term of the contract by or on behalf of the Reinsured, subject to the terms and conditions herein contained. Reinsurance shall apply only to those loss occurrences commencing during the term of the contract which are reported to the company prior to January 1, 2027.

Section A: As respects losses not otherwise Covered under Section B below, the company shall be liable in respect of each and every loss occurrence, for 100% of the Ultimate Net Loss over and above the initial Ultimate Net Loss Retention as shown below:

Layer	Reinsured's Retention Ultimate Net Loss in respect of each and every loss occurrence	Company's Limit of Liability Ultimate Net Loss in respect of each and every loss occurrence
First	$10,000,000	$10,000,000
Second	$5,000,000	$20,000,000
Third	$40,000,000	$160,000,000

Section B: The company shall be liable in the aggregate in respect of each and every loss occurrence arising from an act or acts of terrorism, for 100% of the Ultimate Net Loss in the aggregate in excess of the initial Ultimate Net Loss Retention as shown below:

Layer	Reinsured's Retention Ultimate Net Loss in respect of each and every loss occurrence Ultimate Net Loss in the aggregate	Company's Limit of Liability Ultimate Net Loss in respect of each and every loss occurrence Ultimate Net Loss in the aggregate
First	$10,000,000	$10,000,000
Second	$20,000,000	$20,000,000
Third	$40,000,000	$160,000,000

Sections A and B: The maximum annual recovery for all loss occurrences during the term is shown below:

Layer	Maximum Annual Recovery
First	$30,000,000
Second	$60,000,000
Third	$320,000,000

Premiums: The premium to be paid to the company shall be calculated at the rates set out below multiplied by the Subject Net Earned Premium of the Reinsured for the term of the contract, subject to the annual minimum and deposit premium stated below:

Layer	Premium Rate	Deposit Premium	Minimum Premium
First	0.73%	$2,555,000	$2,044,000
Second	0.16%	$560,000	$448,000
Third	0.40%	$1,400,000	$1,120,000

Commissions: None

Effective date: January 1, 2019

Expiration: January 1, 2020

Termination: The Reinsured may terminate the contract at any time by giving written notice to the company in certain specified circumstances.

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.

United Wisconsin Insurance Company
Assets
As of December 31, 2018

	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	$115,501,904	$	$115,501,904
Stocks:			
Preferred stocks	3,601		3,601
Common stocks	61,688		61,688
Cash, cash equivalents, and short-term investments	4,968,901		4,968,901
Investment income due and accrued	660,637		660,637
Premiums and considerations:			
Uncollected premiums and agents' balances in course of collection	16,393,537		16,393,537
Deferred premiums, agents' balances, and installments booked but deferred and not yet due	61,123,880	47,500	61,076,380
Accrued retrospective premiums and contracts subject to redetermination	2,228,348	198,515	2,029,833
Current federal and foreign income tax recoverable and interest thereon	4,197,816		4,197,816
Net deferred tax asset	2,018,946	46,779	1,972,167
Furniture and equipment, including health care delivery assets	27,287	27,287	
Receivable from parent, subsidiaries, and affiliates	76,128		76,128
Write-ins for other than invested assets:			
Leasehold Improvements	132,284	132,284	
Company Owned Life Insurance	98,231		98,231
Total Assets	$207,493,187	$452,364	$207,040,823

United Wisconsin Insurance Company
Liabilities, Surplus, and Other Funds
As of December 31, 2018

Other expenses (excluding taxes, licenses, and fees)		$ 2,300
Ceded reinsurance premiums payable (net of ceding commissions)		81,738,928
Payable to parent, subsidiaries, and affiliates		1,762,542
Total Liabilities		83,503,770
Common capital stock	$ 3,000,000	
Gross paid in and contributed surplus	40,820,098	
Unassigned funds (surplus)	79,716,955	
Surplus as Regards Policyholders		123,537,053
Total Liabilities and Surplus		$207,040,823

United Wisconsin Insurance Company
Summary of Operations
For the Year 2018

Investment Income		
Net investment income earned	$3,180,535	
Net realized capital gains (losses)	(881,671)	
Net investment gain (loss)		$2,298,864
Other Income		
Write-ins for miscellaneous income:		
Miscellaneous Income (Expense)		45,556
Net income (loss) after dividends to policyholders but before federal and foreign income taxes		2,344,420
Federal and foreign income taxes incurred		(2,287,082)
Net Income		$4,631,502

United Wisconsin Insurance Company
Cash Flow
For the Year 2018

Premiums collected net of reinsurance			$(38,093,295)
Net investment income			3,855,328
Miscellaneous income			45,556
Total			(34,192,411)
Commissions, expenses paid, and aggregate write-ins for deductions		$ 1,500	
Federal and foreign income taxes paid (recovered)		280,000	
Total deductions			281,500
Net cash from operations			(34,473,911)
Proceeds from investments sold, matured, or repaid:			
Bonds	$60,060,631		
Stocks	7,274		
Net gains (losses) on cash, cash equivalents, and short-term investments	(19,559)		
Total investment proceeds		60,048,346	
Cost of investments acquired (long-term only):			
Bonds	22,240,483		
Stocks	16,514		
Total investments acquired		22,256,997	
Net cash from investments			37,791,349
Cash from financing and miscellaneous sources:			
Other cash provided (applied)			(1,380,740)
Reconciliation:			
Net Change in Cash, Cash Equivalents, and Short-Term Investments			1,936,698
Cash, cash equivalents, and short-term investments:			
Beginning of year			3,032,203
End of Year			$ 4,968,901

United Wisconsin Insurance Company
Compulsory and Security Surplus Calculation
December 31, 2018

Assets		$207,040,823
Less liabilities		83,503,770
Adjusted surplus		123,537,053
Annual premium:		
Lines other than accident and health*	$57,351,701	
Factor	20%	
Compulsory surplus (subject to a minimum of $2 million)		11,470,340
Compulsory Surplus Excess (Deficit)		$112,066,713
Adjusted surplus (from above)		$123,537,053
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%)		15,943,773
Security Surplus Excess (Deficit)		$107,593,280

*Adjustment for premiums ceded to unauthorized reinsurers. This figure was not included in the Compulsory and Security Surplus Calculation that was filed with the Office of the Commissioner of Insurance for the 12 months ending December 31, 2018 (instead, it was determined during examination testing based on information provided by the company during the course of examination fieldwork). The company's calculation of Compulsory and Security Surplus is discussed in further detail in Section VII of this examination report under the caption "Compulsory and Security Surplus."

United Wisconsin Insurance Company
Analysis of Surplus
For the Three-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
Surplus, beginning of year	$121,368,354	$117,526,967	$103,690,979
Net income	4,631,502	8,694,701	13,385,050
Change in net unrealized capital gains/losses	319,132	4,795	687
Change in net deferred income tax	(2,045,586)	(10,070,841)	1,697,771
Change in nonadmitted assets	789,747	5,305,815	(514,349)
Change in provision for reinsurance		1,800	(800)
Write-ins for gains and (losses) in surplus:			
SSAP 102 transition pension/postretirement liability (net of deferred tax)	(1,526,096)	(94,883)	
SSAP 102 transition pension/postretirement liability (net of deferred tax)	0	0	(732,371)
Surplus, End of Year	$123,537,053	$121,368,354	$117,526,967

United Wisconsin Insurance Company
Insurance Regulatory Information System
For the Three-Year Period Ending December 31, 2018

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

	Ratio	2018	2017	2016
#1	Gross Premium to Surplus	216%	156%	355%
#2	Net Premium to Surplus	0	0	98
#3	Change in Net Premiums Written	0	-100*	14
#4	Surplus Aid to Surplus	0	0	0
#5	Two-Year Overall Operating Ratio	0	76	78
#6	Investment Yield	2.3	2.1*	2.2*
#7	Gross Change in Surplus	2	3	13
#8	Change in Adjusted Surplus	2	3	13
#9	Liabilities to Liquid Assets	19	36	94
#10	Agents' Balances to Surplus	13	11	34
#11	One-Year Reserve Development to Surplus	0	0	-2
#12	Two-Year Reserve Development to Surplus	0	0	-1
#13	Estimated Current Reserve Deficiency to Surplus	0	0	-8

Ratio No. 3 measures the change in net premiums written from the prior year. The exceptional result in 2017 was due to changes in the pooling agreement, where the company's participation percentage decreased to 0% effective January 1, 2017.

Ratio No. 6 measures the amount of the company's net investment income as a percentage of the average amount of cash and invested assets and was considered exceptional in 2016 and 2017. This is mainly due to the prolonged low interest rate environment in the United States during the period under examination. The benchmark range for Ratio No. 6 was adjusted for the year ended December 31, 2018 (the floor was lowered to 2.0%).

Growth of United Wisconsin Insurance Company

Year	Admitted Assets	Liabilities	Surplus as Regards Policyholders	Net Income
2018	$207,040,823	$ 83,503,770	$123,537,053	$ 4,631,502
2017	246,933,129	125,564,775	121,368,354	8,694,701
2016	415,641,429	298,114,462	117,526,867	13,385,050

Year	Gross Premium Written	Net Premium Written	Premium Earned	Loss and LAE Ratio	Expense Ratio	Combined Ratio
2018	$267,292,917	$ 0	$ 0	0.0%	0.0%	0.0%
2017	189,036,761	0	0	0.0	0.0	0.0
2016	417,332,049	114,891,477	108,860,345	60.1	22.3	82.4

During the period under examination, the company's admitted assets decreased 50.2%, liabilities decreased 72.0%, and surplus increased by 5.1%. The significant decrease in liabilities during the period under examination was the result of amendments made to the intercompany pooling agreement. As previously discussed, the company's participation in the intercompany pooling agreement was reduced to zero during the period under examination. As a consequence of the reduced pool participation, the company released its reserves and transferred the related assets to the Lead Company of the pool, AFICA. The company has not received any contributions from AFICA or paid any dividends to AFICA during the period under examination.

Workers' Compensation and Commercial Auto Liability coverages represented approximately 92% and 8%, respectively, of gross written premium in 2018. The company's gross written premiums are produced directly through brokers and agents, as well as through fronting arrangements. Examination testing determined that 41% of the company's 2018 gross written premiums were produced through agreements with three fronting partners. The fronting business arrangements typically involved several agreements (e.g., an underwriting agreement or claims administration agreement), which provided for a delegation of certain authorities to third party administrators and managing general agents.

During examination testing, it was further determined that at least one of the three fronting partners met the statutory definition of a Managing General Agent according to s. Ins 42.01 (3), Wis. Adm. Code. This determination was based on the authorities delegated to the third parties and the volume of the company's direct premiums written produced by these fronting partners.

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

1. Security Access Review—It is again recommended that IT management follow through its intention to establish a formal program for periodic user access rights review, which is part of a more routine and consistent scheduled process, to ensure user access rights are limited to authorized staff consistent with assigned responsibilities.

   Action—Compliance.

2. Executive Compensation—It is again recommended that the company comply with s. 611.63 (4) Wis. Stat., by reporting all compensation received by officers or employees in accordance with the instructions stated on the Report on Executive Compensation.

   Action—Compliance.

3. Bylaws—It is recommended that the company inform the Commissioner of Insurance of changes to its bylaws within 60 days after adoption in accordance with s. 611.12 (4), Wis. Stat.

   Action—Compliance.

4. Information Technology Controls—It is recommended that the company strengthen its information system controls in accordance with the recommendations made in the letter to management dated May 23, 2017.

   Action—Compliance.

Summary of Current Examination Results

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

Managing General Agents/Third-Party Administrators – Disclosure Requirements

Statement of Statutory Accounting Principle (SSAP) No. 53, paragraph 19 of the NAIC's *Accounting Practices & Procedures Manual* prescribes the disclosure requirements for direct premiums written through managing general agents and third-party administrators. These requirements, which are reiterated in the NAIC's *Annual Statement Instructions – Property/Casualty*, prescribe that an insurer shall make the following disclosures in Note 19:

"Disclose the aggregate amount of direct premiums written through/produced by managing general agents or third-party administrators. For purposes of this instruction, a managing general agent means the same as in Appendix A-225 of the NAIC *Accounting Practices and Procedures Manual*. If this amount is equal to or greater than 5% of surplus, provide the following information for each managing general agent and third-party administrator:

a. Name and address of managing general agent or third-party administrator.
b. Federal Employer Identification Number.
c. Whether such person holds an exclusive contract.
d. Types of business written.
e. Type of authority granted (i.e., underwriting, claims payment, etc.).
f. Total premium written/produced by."

Examination testing revealed that UWIC failed to comply with these disclosure requirements in its 2018 Annual Statement. During examination testing, it was discovered that the Accident Fund group has been utilizing UWIC to write certain program business on UWIC's paper (often, under a fronting arrangement whereby UWIC cedes 100% of the program business to a non-affiliated insurer). Pursuant to these program arrangements, UWIC has entered into agreements with Arrowhead General Insurance Agency, Sunz Insurance Solutions, LLC and affiliates, and Paramount General Agency whereby underwriting, claims, and other authorities are delegated to these third parties. These services meet the definition of a third-party administrator and/or managing general agent, and therefore, the aggregate amount of direct premiums written through/produced by these parties should have been disclosed in Note 19. Moreover, the volume of UWIC's direct premiums written in 2018 related to these third parties exceeded 5% of UWIC's policyholders' surplus as of December 31, 2018, triggering the more detailed disclosure requirements as set forth in A-F of the NAIC's *Annual Statement Instructions – Property/Casualty* for Note 19 in the Notes to Financial Statements.

It is recommended that UWIC comply with the disclosure requirements pertaining to business written through/produced by managing general agents and third-party administrators in accordance with Statement of Statutory Accounting Principle (SSAP) No. 53, paragraph 19 of the NAIC's *Accounting Practices & Procedures Manual* and the NAIC's *Annual Statement Instructions – Property/Casualty*.

Managing General Agent – Notification Requirements

The definition of "Managing General Agent" is provided in s. Ins 42.01 (3), Wis. Adm. Code. For purposes of clarity, a third party that meets the following criteria would be considered to be a managing general agent under Chapter 42, Wisconsin Statutes: "Acts as an agent of the insurer; and with or without the authority, either separately or together with affiliates, directly or indirectly:

(a) Produces and underwrites in any one quarter or year an amount of gross direct written premium equal to more than 5% of the policyholder surplus as reported in the last annual statement of the insurer; and

(b) Adjusts or pays claims in any one quarter or year in excess of 3% of the policyholder surplus as reported in the last annual statement of the insurer, or negotiates on behalf of the insurer, or both."

The notification requirements for managing general agents are set forth in s. Ins 42.05 (5), Wis. Adm. Code, which states: "Within 30 days of entering into or termination of a contract with a managing general agent, an insurer shall provide written notification of the appointment or termination to the commissioner. Notices of appointment of a managing general agent shall include a statement of duties which the applicant is to be authorized to act, a copy of the contract, and any other information the commissioner may request."

Examination testing determined that, for at least one of the three program business arrangements previously discussed, the third party met the definition of a managing general agent, and that UWIC failed to comply with the notification requirements set forth in s. Ins. 42.05 (5), Wis. Adm. Code.

It is recommended that UWIC comply with the managing general agent notification requirements, as set forth in s. Ins. 42.05 (5). Wis. Adm. Code.

Statutory Reporting of Reinsurance Cessions

As previously discussed, the company participates in a number of arrangements with third parties, whereby program business is written on UWIC's paper, and is then ceded 100% to non-affiliated reinsurers. According to statutory accounting principles:

- SSAP No. 63 (par. 7 – Intercompany Pooling Arrangements) states: "In these [intercompany pooling] arrangements, only the policy issuing entity has direct liability to its policyholders or claimants…"
- SSAP No. 62R (par. 77 – Unauthorized Reinsurance) states: "If the assuming reinsurer is not authorized, otherwise approved or certified to do business in the ceding entity's domiciliary state, the assumed reinsurance is considered to be unauthorized. A provision is established to offset credit taken in various balance sheet accounts for reinsurance ceded to unauthorized reinsurers. Credit for reinsurance to unauthorized reinsurers shall be permitted to the extent the ceding entity holds collateral in accordance with A-785. If the assuming reinsurer is not licensed or is not an authorized reinsurer in the domiciliary state of the ceding entity or if the reinsurance does not meet required standards, the ceding entity must set up a provision for reinsurance liability in accordance with the NAIC Annual Statement Instructions for Property and Casualty Insurance Companies Schedule F."

- The NAIC's *Annual Statement Instructions – Property/Casualty* (Schedule F – Reinsurance) states the following in the introductory section (U.S. Intercompany Pooling Arrangements): "Cessions to unaffiliated reinsurers, whether prior to cession of the pooled business to the lead company or subsequent thereto, shall be reported in the usual manner in the ceded schedules for the company or companies effecting such cessions, or identified as parties to the reinsurance agreement…"

During the examination, it was determined that the company did not properly report its cessions to nonaffiliated reinsurers in the 2018 Annual Statement in accordance with statutory accounting principles. Specifically, UWIC wrote direct program business on its own paper under its 100% Quota Share Reinsurance Agreement with SUNZ Insurance Company, an unauthorized reinsurer in Wisconsin, in 2018; however, the company did not report any reinsurance transactions pertaining to its cessions to SUNZ Insurance Company in Schedule F, including but not limited to premiums ceded and offsetting collateral. Instead, UWIC's affiliate, Accident Fund Insurance Company of America, the lead company for the Accident Fund intercompany pool, reported reinsurance premiums ceded to SUNZ Insurance Company pertaining to this program in the amount of $49.101 million in its 2018 Schedule F – Part 3. Accident Fund Insurance Company of America did not, however, report any related collateral.

Based on examination inquiries, it was confirmed that UWIC is the only Accident Fund entity that writes and cedes business under the SUNZ program and that UWIC is the sole beneficiary under the trust that was established to collateralize the company's reinsurance cessions. Accordingly, the examination determined that UWIC is the ceding company with respect to the SUNZ program business and thus is directly liable to the policyholders and claimants with respect to that business. Therefore, UWIC should have reported the reinsurance premiums ceded, as well as the collateral held in the trust account established to secure those cessions, in Schedule F.

It is recommended that the company report all reinsurance transactions and related collateral with nonaffiliated reinsurers, including all program business written under fronting or other arrangements, in accordance with SSAP No. 66R, paragraph 77 and the NAIC's *Annual Statement Instructions – Property/Casualty* for Schedule F.

Compulsory and Security Surplus

Insurers authorized to write business in the state of Wisconsin are required to meet Wisconsin's compulsory and security surplus requirements, as set forth in ss. 623.11 and 623.12, Wis. Stat., and s. Ins 51.80, Wis. Adm. Code. The Wisconsin compulsory and security surplus calculation requires insurers to add back premiums ceded to unauthorized reinsurers in calculating their required compulsory and security surplus. UWIC failed to add back premiums ceded to SUNZ Insurance Company, an unauthorized reinsurer in Wisconsin, in its compulsory and security surplus calculation as of December 31, 2018.

It is recommended that UWIC add back all premiums ceded to unauthorized reinsurers, including but not limited to SUNZ Insurance Company, in future compulsory and security surplus calculation filings, in accordance with ss. 623.11 and 623.12, Wis. Stat., and s. Ins 51.80, Wis. Adm. Code.

Intercompany Pooling – Required Disclosures

As previously noted, the company participates in an Intercompany Reinsurance and Pooling Agreement with other members of the Accident Fund group. SSAP No. 63, paragraph. 11, prescribes the necessary disclosures for intercompany pooling arrangements. These requirements, which are reiterated in the NAIC's Annual Statement Instructions – Property/Casualty, state that an insurer shall make certain disclosures in Note 26 (Intercompany Pooling Arrangements), including but not limited to the following:

- [Note 26 – B] Description of the lines and types of business subject to the pooling agreement.
- [Note 26 – C] Description of cessions to non-affiliated reinsurers of business subject to the pooling agreement, and indication of whether such cessions were prior to or subsequent to the cession of the pooled business from the affiliated pool members to the lead entity.

- [Note 26 – D] Identification of all pool members that are parties to reinsurance agreements with non-affiliated reinsurers covering business subject to the pooling agreement and that have a contractual right of direct recovery from the non-affiliated reinsurer per the terms of such reinsurance agreements.

During the examination, it was determined that UWIC did not properly disclose its program business arrangements in the 2018 Annual Statement Notes to Financial Statements (Note 26 – Intercompany Pooling). Specifically, the company made the following disclosures in its 2018 Annual Statement (Note 26):

- [Note 26 – B] Lines and Types of Business Subject to Pooling: All of the Company's lines and underwritten business are subject to the pooling agreement, *excluding* accident and health and *any ceded reinsurance*.
- [Note 26 – C] Cessions to Non-affiliated Insurers: Cessions are made to non-affiliated reinsurers subsequent to the cession of pooled business to the lead entity and are allocated to the pool members based on each member's participation percentage.
- [Note 26 – D] Pool Members which are Parties to Reinsurance Agreements with Non-affiliated Reinsurers: All companies participate in reinsurance agreements with non-affiliated reinsurers and have a contractual right of direct recovery from the non-affiliated reinsurers.

Although the company disclosed in Note 26 - B that ceded reinsurance is excluded from the pooling agreement, the company failed to disclose its pre-pooling cessions to non-affiliated reinsurers in Note 26 – C. In addition, the company failed to identify all pool members that are parties reinsurance agreements with non-affiliated reinsurers covering business subject to the pooling agreement and that have a contractual right of direct recovery from the non-affiliated reinsurer under the terms of such reinsurance agreements in Note 26 – D.

It is recommended that the company comply with the disclosure requirements pertaining to intercompany pooling arrangements, including but not limited to disclosures pertaining specifically to cessions to non-affiliated reinsurers, in accordance with Statement of

Statutory Accounting Principle No. 63, paragraph 11, and the NAIC's *Annual Statement Instructions Property/Casualty* for Note 26 of the Notes to Financial Statements.

Multi-Beneficiary Trust Agreement

The obligations of SUNZ Insurance Company, as the reinsurer of the Workers' Compensation Quota Share Reinsurance Agreement (outlined in the Reinsurance section of this report), are collateralized by a trust account. The terms of the trust account are set forth in a related Trust Agreement, which defines "Beneficiary" as "United Wisconsin Insurance Company, and its affiliates Accident Fund General Insurance Company, Accident Fund National Insurance Company, CompWest Insurance Company, and Accident Fund Insurance Company of America…" The Trust Agreement does not comply with the requirements set forth in s. Ins 52.05 (2), Wis. Adm. Code, in that it is a multi-beneficiary trust due to the language defining beneficiaries other than UWIC.

It is recommended that the company amend the Trust Agreement with SUNZ Insurance Company and Fifth Third Bank to comply with the requirements of s. Ins 52.05 (2), Wis. Adm. Code, regarding single beneficiary trusts securing reinsurance obligations.

Collateral Requirements of Trust Agreement

According to Schedule 14.3 to the Quota Share Reinsurance Agreement with SUNZ Insurance Company: "Sunz Insurance Company…through its reinsurance agreement with United Wisconsin Insurance Company and pursuant to the Trust Agreement entered into by Reinsurer and Cedent, will maintain a trust fund to cover one hundred fifteen (115%) of all liabilities ceded by reinsurer net of the Liquidity Balance that is calculated as the lesser of (i) amounts held in Reinsurer's loss fund bank account ("Loss Fund Account") which shall be used by Reinsurer to pay all losses and allocated loss adjustment expenses under this Agreement and will be pledged for the benefit of Cedent or (ii) total losses and allocated loss adjustment expenses paid under this Agreement for the most recent three (3) months."

Section Ins 52.05 (2) (b), Wis. Adm. Code, states that a ceding insurer may take credit (for reinsurance cessions) under s. Ins 52.04 (3), Wis. Adm. Code, only if the trust agreement creates a trust account and *all the assets* are deposited in the trust account. The use of the “Liquidity Balance” to offset the trust fund requirement is in violation of s. Ins. 52.05 (2) (b), Wis. Adm. Code.

It is recommended that the company amend the Quota Share Reinsurance Agreement with SUNZ Insurance Company to remove all references to offsets to the required assets deposited in the trust account, and fully fund the related trust account, in accordance with the funding requirements established in Schedule 14.3 of the Quota Share Reinsurance Agreement, pursuant to s. Ins 52.05 (2) (b), Wis. Adm. Code.

Governing Law – Various Agreements

The Quota Share Reinsurance Agreement, Underwriting Agency Agreement, and Third-Party Claims Administration Agreement related to the fronting transaction with SUNZ Insurance Company and its affiliates all include a “Governing Law” clause that states: “This Agreement shall be governed and construed in accordance with the laws of Michigan.” In addition, the related Trust Agreement states: “This Trust Agreement shall be subject to and governed by the laws of the state of New York.”

During the examination, it was determined that UWIC is the only AF Group affiliate that is a party to these agreements. Accordingly, these agreements should be amended to change the “Governing Law” clause to reflect the proper governing authority. With respect to the Quota Share Reinsurance Agreement, Underwriting Agency Agreement, and Third-Party Claims Administration Agreement, the Governing Clause should be revised to state that the agreement shall be “governed and construed in accordance with the laws of Wisconsin.” With respect to the Trust Agreement, this would be the state in which the trust is established, in accordance with s. Ins 52.05 (2) (h), Wis. Adm. Code.

It is recommended that the company amend the “Governing Law” clause in the SUNZ Program Agreements, including the Quota Share Reinsurance Agreement, Underwriting Agency Agreement, and Third-Party Claims Administration Agreement, to reflect Wisconsin as the governing authority.

In addition, it is recommended that the company amend the “Miscellaneous” clause in the Trust Agreement with SUNZ Insurance Company and Fifth Third Bank to reflect the governing authority as the state in which the trust is established, in accordance with s. Ins 52.05 (2) (h), Wis. Adm. Code.

Signatories to the SUNZ Program Agreements

According to s. 611.51 (6), Wis. Stat. (Unlawful Delegation): The board shall manage the business and affairs of the corporation and may not delegate its power or responsibility to do so except to the extent authorized by ss. 180.0841, Wis. Stat., (Duties of Officers) and 611.56, Wis. Stat., (delegation to board committees). Per s. 180.0841, Wis. Stat.: "Each officer has the authority and shall perform the duties set forth in the bylaws or, to the extent inconsistent with the bylaws, the duties prescribed by the board of directors or by direction of an officer authorized by the bylaws or by the board of directors."

A key responsibility delegated by the board to an officer of the company is the authority to execute legally binding contracts on behalf of the company. It should be noted that contracts that are not signed by a signatory authorized by the board could potentially be challenged in court. According to the company's bylaws: "The president shall be the administrative officer of the corporation. The president shall have the general and active management of the business of the corporation."

The examination's review of the SUNZ Program Agreements revealed that UWIC is the only entity listed on the signature page of each agreement, and that the signatory for UWIC is Eric M. Halter, a Managing Director of AF Specialty, who is neither an officer nor a director of UWIC. The examination noted that Mr. Halter is authorized to enter into and execute all agreements for reinsurance for AFICA and its subsidiaries through a "Delegation of Authorization for Approval and Execution of Reinsurance Contracts" executed by Jacob Geyer, who is vice president, business analytics and underwriting operations of AFICA. The "Delegation of Authorization for Approval and Execution of Reinsurance Contracts" reviewed during examination was effective October 16, 2019. Mr. Geyer was authorized to execute the "Delegation of Authorization for Approval and Execution of Reinsurance Contracts" pursuant to an Emergent Holdings Board of Directors policy.

The examination determined that the effective date of the “Delegation of Authorization for Approval and Execution of Reinsurance Contracts” was several years after Mr. Halter endorsed the SUNZ Program Agreements. A further review determined that the board of directors of UWIC were not signatories to the “Delegation of Authorization for Approval and Execution of Reinsurance Contracts” and a similar policy or authorization of the UWIC board of directors itself did not exist. Therefore, Mr. Halter has not been authorized by UWIC’s board to act as an agent for the purposes of executing contracts on behalf of the company.

It is recommended that the company take corrective action to ensure that the signatory for all contracts, including the SUNZ Program Agreements, be an officer or agent of the company, who has been authorized by the board to execute contracts on behalf of the company, in accordance with s. 611.51 (6), Wis. Stat., and s. 180.0841, Wis. Stat.

VIII. CONCLUSION

United Wisconsin Insurance Company is a stock insurance company writing workers' compensation coverage and commercial auto liability coverage on a direct basis and through fronting arrangements. The company is licensed in 49 states (excluding Hawaii) and the District of Columbia. As of December 31, 2018, the audited statutory statements of UWIC reported net admitted assets of $207,042,000, liabilities of $83,505,000, and capital and surplus of $123,537,000. Operations for 2018 produced net income of $4,632,000. Workers' compensation and commercial auto liability represented approximately 92% and 8%, respectively, of gross written premium in 2018.

The company's board of directors is comprised entirely of internal management. Certain members of internal management also serve on the board of directors of Emergent Holdings. The overall holding company structure of Emergent Holdings includes a blend of leadership specifically focused on the AF Group and those for the entire Emerging Markets Division. The AF Group has diversified since the prior examination and now writes commercial auto liability business in addition to its core workers' compensation products. UWIC's gross written premium includes business written under the United Heartland brand and the AF Specialty brands of the AF Group. To date, the commercial auto liability product written on UWIC's paper has been exclusively produced through a fronting arrangement.

The comments and recommendations included in this examination report largely relate to the appropriate reporting of reinsurance and fronting business in the statutory statements of the AF Group companies. There were no adjustments made to the company's policyholders' surplus as a result of this examination. The examination did, however, result in an increase in the company's minimum required compulsory and security surplus pursuant to ss. 623.11 and 623.12, Wis. Stat., and s. Ins 51.80, Wis. Adm. Code, due to the company's use of an unauthorized reinsurer in one of the fronting transactions.

IX. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 45 Managing General Agents/Third-Party Administrators – Disclosure Requirements—It is recommended that UWIC comply with the disclosure requirements pertaining to business written through/produced by managing general agents and third-party administrators in accordance with Statement of Statutory Accounting Principle (SSAP) No. 53, paragraph 19 of the NAIC's *Accounting Practices & Procedures Manual* and the NAIC's *Annual Statement Instructions – Property/Casualty*.

2. Page 46 Managing General Agent – Notification Requirements—It is recommended that UWIC comply with the managing general agent notification requirements, as set forth in s. Ins. 42.05 (5). Wis. Adm. Code.

3. Page 47 Statutory Reporting of Reinsurance Cessions—It is recommended that the company report all reinsurance transactions and related collateral with nonaffiliated reinsurers, including all program business written under fronting or other arrangements, in accordance with SSAP No. 66R, paragraph 77 and the NAIC's *Annual Statement Instructions – Property/Casualty* for Schedule F.

4. Page 48 Compulsory and Security Surplus—It is recommended that UWIC add back all premiums ceded to unauthorized reinsurers, including but not limited to SUNZ Insurance Company, in future compulsory and security surplus calculation filings, in accordance with ss. 623.11 and 623.12, Wis. Stat., and s. Ins 51.80, Wis. Adm. Code.

5. Page 49 Intercompany Pooling – Required Disclosures—It is recommended that the company comply with the disclosure requirements pertaining to intercompany pooling arrangements, including but not limited to disclosures pertaining specifically to cessions to non-affiliated reinsurers, in accordance with Statement of Statutory Accounting Principle No. 63, paragraph 11, and the NAIC's *Annual Statement Instructions Property/Casualty* for Note 26 of the Notes to Financial Statements.

6. Page 50 Multi-Beneficiary Trust Agreement—It is recommended that the company amend the Trust Agreement with SUNZ Insurance Company and Fifth Third Bank to comply with the requirements of s. Ins 52.05 (2), Wis. Adm. Code, regarding single beneficiary trusts securing reinsurance obligations.

7. Page 51 Collateral Requirements of Trust Agreement—It is recommended that the company amend the Quota Share Reinsurance Agreement with SUNZ Insurance Company to remove all references to offsets to the required assets deposited in the trust account, and fully fund the related trust account, in accordance with the funding requirements established in Schedule 14.3 of the Quota Share Reinsurance Agreement, pursuant to s. Ins 52.05 (2) (b), Wis. Adm. Code.

8. Page 51 Governing Law – Various Agreements—It is recommended that the company amend the "Governing Law" clause in the SUNZ Program Agreements, including the Quota Share Reinsurance Agreement, Underwriting Agency Agreement, and Third-Party Claims Administration Agreement, to reflect Wisconsin as the governing authority.

9. Page 51 Governing Law – Various Agreements—It is recommended that the company amend the "Miscellaneous" clause in the Trust Agreement with SUNZ

Insurance Company and Fifth Third Bank to reflect the governing authority as the state in which the trust is established, in accordance with s. Ins 52.05 (2) (h), Wis. Adm. Code.

10. Page 53 Signatories to the SUNZ Program Agreements—It is recommended that the company take corrective action to ensure that the signatory for all contracts, including the SUNZ Program Agreements, be an officer or agent of the company, who has been authorized by the board to execute contracts on behalf of the company, in accordance with s. 611.51 (6), Wis. Stat., and s. 180.0841, Wis. Stat.

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
Gabe Gorske	Insurance Financial Examiner
Dave Jensen, CFE	IT Specialist
Jerry DeArmond, CFE	Reserve Specialist
Terry Lorenz, CFE	Workpaper Specialist

Respectfully submitted,

Adrian Jaramillo
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 AF Group regarding the impact of COVID-19 on business operations and the financial position of UWIC and no immediate action was deemed necessary at the time of this report.