Report of the Examination of

Viking Insurance Company of Wisconsin

Stevens Point, Wisconsin

As of December 31, 2018

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State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

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April 3, 2020

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

Commissioner:

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

VIKING INSURANCE COMPANY OF WISCONSIN
Stevens Point, Wisconsin

and this report is respectfully submitted.

I. INTRODUCTION

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

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

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

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

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

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

Independent Actuary's Review

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

II. HISTORY AND PLAN OF OPERATION

The company was incorporated in Wisconsin in 1971, as a multiple-line insurance company, as Viking Insurance Company. In 1973, its name was changed to the current name, Viking Insurance Company of Wisconsin. The company was originally controlled by the directors, their families, and employees through an employee stock ownership trust.

In 1982, all of the outstanding stock was purchased by Crum and Forster, Inc., a New York holding company and a subsidiary of the Xerox Corporation. As a result of an organization restructuring in 1993, the company's stock was contributed to a newly formed holding company, Viking Insurance Holdings, Inc. (Viking Holdings), a Delaware corporation, which was a wholly owned subsidiary of Talegen Holdings, Inc., a Delaware corporation.

In 1995, Guaranty National Corporation (now Orion Auto, Inc.) acquired Viking Holdings. In 1997, the company became a subsidiary of Orion Auto, Inc., after Viking Holdings was dissolved.

In 1999, Viking redomesticated from the state of Wisconsin to the state of Colorado. With the approval of the Colorado Division of Insurance and other concerned jurisdictions, Royal & Sun Alliance Insurance Group plc purchased Orion Auto, Inc., and all of its subsidiaries on November 16, 1999.

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

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

California	$ 146,371,526	40.1%
Oregon	24,537,361	6.7
Utah	22,667,383	6.2
Ohio	21,618,212	5.9
All others	150,212,457	41.1
Total	$ 365,406,939	100.0%

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

The following table is a summary of the net insurance premiums written by the company in 2018. The growth of the company is discussed in the "Financial Data" section of this report.

Line of Business	**Direct Premium**	**Reinsurance Assumed**	**Reinsurance Ceded**	**Net Premium**
Fire	$	$ 1,799,036	$	$ 1,799,036
Allied lines		3,598,734		3,598,734
Homeowners multiple peril		8,717		8,717
Commercial multiple peril		417,470		417,470
Ocean marine		7,874		7,874
Inland marine		4,831,133		4,831,133
Earthquake		49,978		49,978
Group accident and health		630,778		630,778
Other accident and health		1,942		1,942
Workers' compensation		21,974,931		21,974,931
Other liability – occurrence		5,226,153		5,226,153
Other liability – claims made		174,025		174,025
Excess workers' compensation		150,962		150,962
Products liability – occurrence		1,787,984		1,787,984
Private passenger auto liability	301,954,159	189,498,707	453,491,213	37,961,653
Commercial auto liability		17,415,941		17,415,941
Auto physical damage	63,452,780	91,938,165	137,286,703	18,104,242
Fidelity		203,770		203,770
Surety		35,600		35,600
Burglary and theft		17,994		17,994
Reinsurance – non-proportional assumed liability		200		200
Total All Lines	$365,406,939	$339,770,090	$590,777,916	$ 114,399,113

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

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

Viking directly underwrites business in the Dairyland Auto and Dairyland Cycle business units. All direct and assumed business, net of cessions, is pooled with affiliates. The reinsurance pooling agreement is described in Section V of this report, titled “Reinsurance.”

III. MANAGEMENT AND CONTROL

Board of Directors

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

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

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

Officers of the Company

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

Name	Office	2018 Compensation*
Peter G. Anhalt	President	$494,074
Michael J. Williams	Vice President	160,174
Kip J. Kobussen	Secretary	62,225
Todd M. Schroeder	Treasurer	42,800

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

Committees of the Board

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

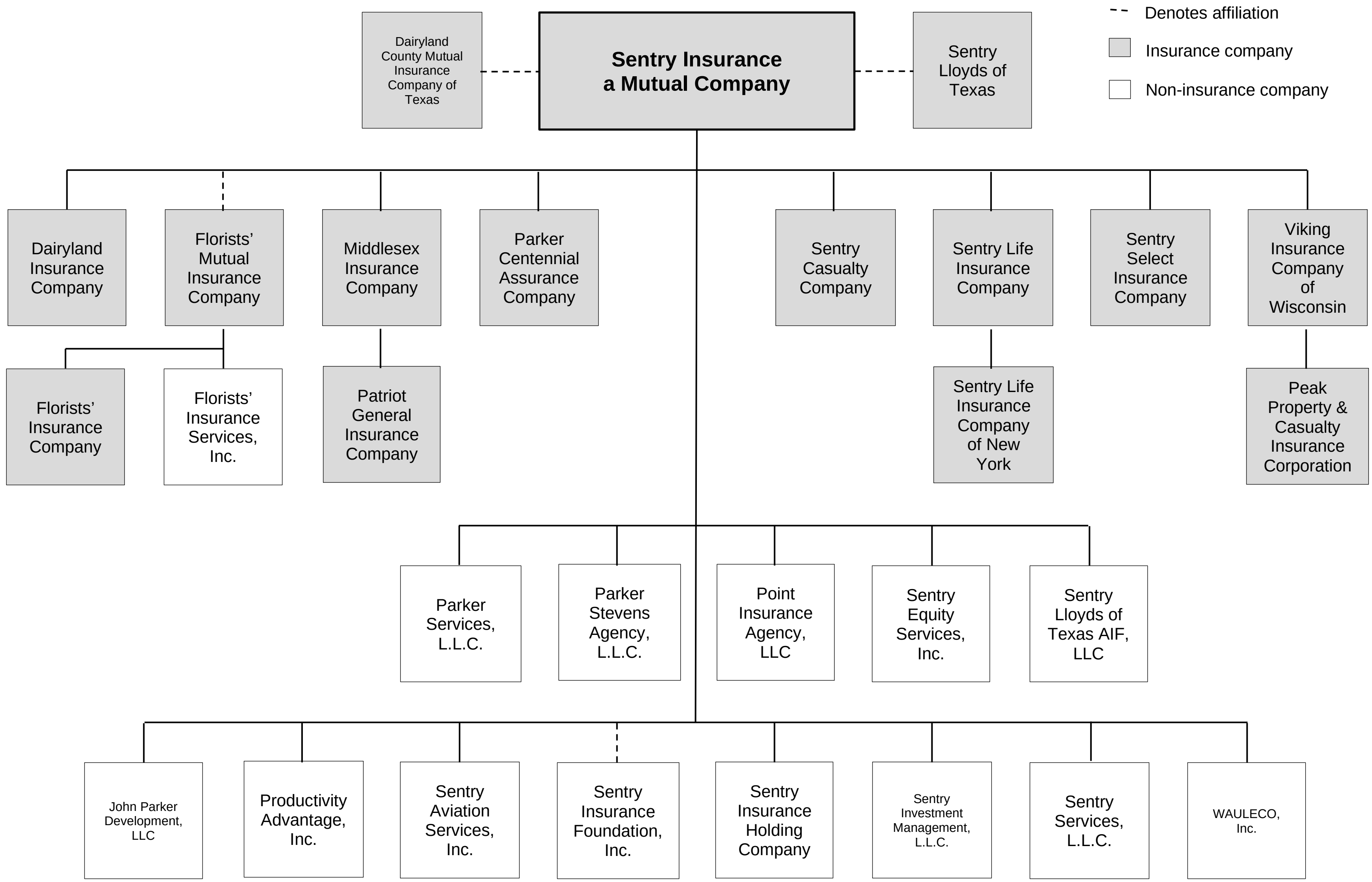
IV. AFFILIATED COMPANIES

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

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

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

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


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

Insurance Subsidiaries and Affiliates

Sentry Insurance a Mutual Company

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

Peak Property and Casualty Insurance Corporation

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

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

Noninsurance Subsidiaries and Affiliates

Sentry Investment Management, L.L.C.

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

Affiliated Agreements

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

Investment Advisory Agreement

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

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

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

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

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

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

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

Joint Investment Agreement

Effective October 1, 1996, the company entered into an amended and restated joint investment agreement with various affiliates to establish the Sentry Liquid Asset Partnership (SLAP), a joint venture organized pursuant to the Wisconsin Uniform Partnership Act. This agreement has been amended and restated to add or delete companies as needed. Sentry Insurance is designated as the managing partner, though the agreement permits a change by a majority decision of the participants. A participant may withdraw from the joint venture upon the delivery of a written notice to the managing partner. The joint venture shall dissolve at such time as only one participant remains in the joint venture. The terms of this agreement are continuous; however, all parties to the agreement are required to review and negotiate the agreement no less than once every three years.

The business of the joint venture consists of investing and reinvesting funds contributed by the members in short-term obligations of banks, corporations, and the U.S. federal government with a maximum duration of 12 months. It functions in a manner analogous to a short-term bond mutual fund. Investment advisory services are provided by Sentry Investment Management, L.L.C. This office has directed all Wisconsin-domiciled Sentry companies to report their respective balances in SLAP as a one-line entry on Schedule DA – Part 1 (Short-Term Investments) and Schedule E – Part 2 (Cash Equivalents). In 2018, Viking reported no SLAP short-term investments and $7,584,162 in SLAP money market mutual funds. Dairyland received $54,236 interest from the SLAP money market mutual funds.

Tax Allocation Agreement

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

General Expense Allocation Agreement

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

Viking is a party to this agreement but is not a signatory. See the Administrative Services Agreement below for details regarding the agreement between Sentry Insurance and Viking.

Intercompany Settlement Policy

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

Viking is a party to this agreement but is not a signatory. See the Administrative Services Agreement below for details regarding the agreement between Sentry Insurance and Viking.

Administrative Services Agreement

Sentry Insurance has established an administrative services agreement with Viking that was last amended and restated effective July 8, 2014. Under this agreement Sentry Insurance is to provide essentially all services required for Viking's business operations.

Expenses relating to the services provided under this agreement are to be allocated to the company by Sentry Insurance through the general expense allocation and intercompany settlement agreements (described earlier in this section of the report). Services may be terminated by either party by 90 days' written notice or at any time by mutual consent.

V. REINSURANCE

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

Affiliated Property and Casualty Pooling Agreement

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

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

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

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

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

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

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

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

Affiliated Assuming Contracts

In addition to the pooling agreement above, Viking has a 100% quota share agreements with its subsidiary, Peak.

1. Type: 100% Quota Share

   Reinsured: Peak Property & Casualty Insurance Corporation

   Scope: All business directly written by the company after cessions to nonaffiliated reinsurers

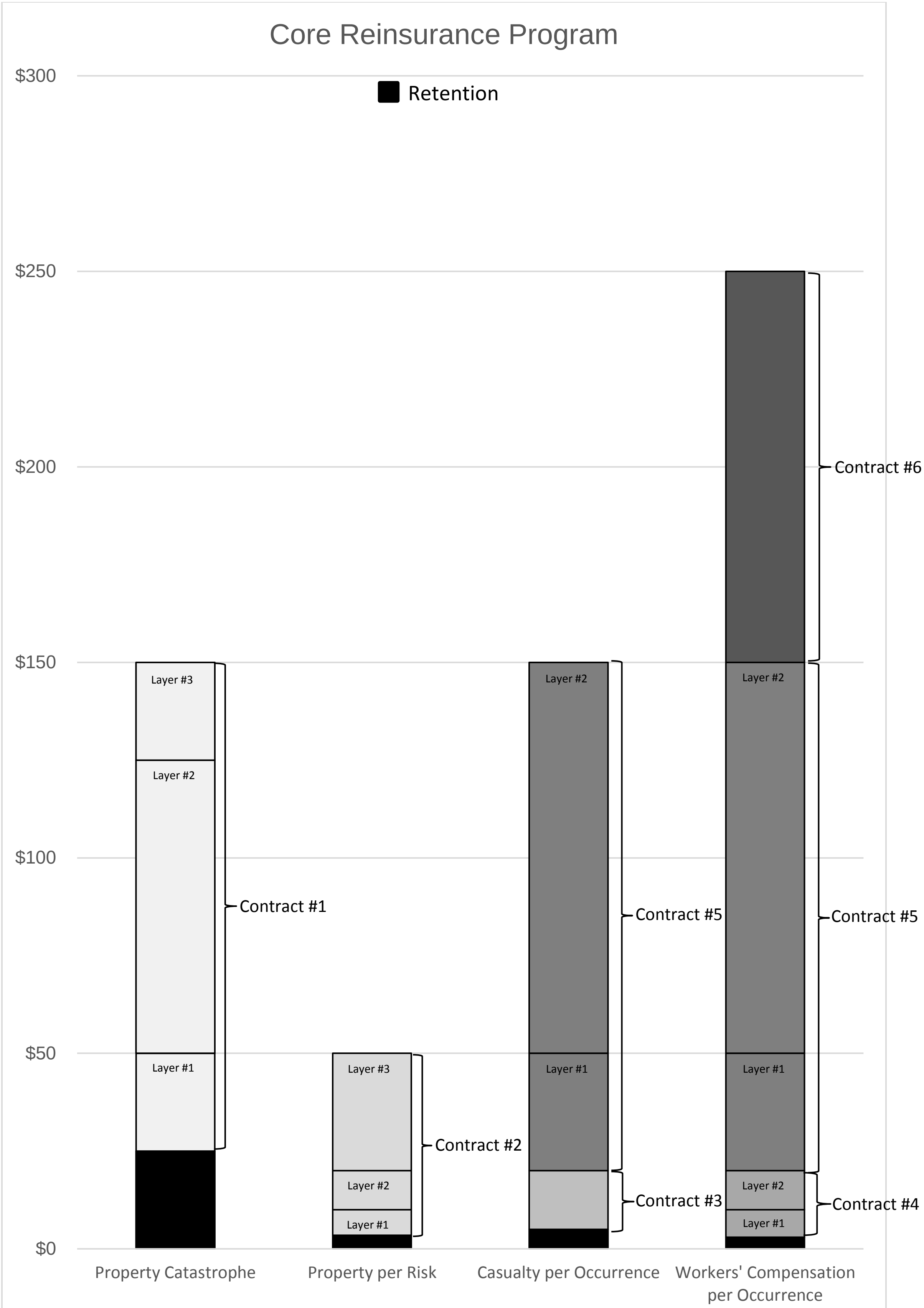
   Retention: None

   Coverage: 100% of net losses, net loss adjustment expenses, and any or all other expenses incurred by or assessed against the reinsured arising from business covered by this contract

Premium:	100% of all net premiums on business ceded pursuant to this treaty
Ceding commission:	Ceding commissions equal to the actual underwriting expenses
Effective date:	April 1, 2005, amended January 1, 2012, and is continuous
Termination:	In effect, the reinsured does not retain any net premiums written, net premiums earned, net losses incurred, loss adjustment expenses, or underwriting expenses under this contract and, therefore, cannot incur an underwriting profit or loss as long as this treaty is in force.

Nonaffiliated Ceding Contracts

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



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

1. Type: Property Catastrophe Excess of Loss

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

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

Scope: Property business with certain named exclusions

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

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

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

Commissions: None

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

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

2. Type: Property Per Risk Excess of Loss

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

Subscribing Reinsurer	Layer 1*	Layer 2	Layer 3
Arch Reinsurance Company	0.0%	0.0%	12.5%
Ariel Re BDA Limited	3.0	3.0	3.0
Aspen Insurance UK Limited	7.5	16.0	10.0
Dual Commercial LLC	0.0	10.0	2.5
Employers Mutual Casualty Company	2.5	5.0	5.0
Fidelis Insurance Bermuda Limited	0.0	1.5	0.0
General Reinsurance Corporation (Direct)	0.0	0.0	50.0

Subscribing Reinsurer	Layer 1*	Layer 2	Layer 3
General Reinsurance Corporation	0.0	3.0	0.0
Hannover Ruck SE	30.0	22.5	17.0
Munich Reinsurance Americas, Inc.	12.5	12.5	0.0
Mutual Reinsurance Bureau	22.0	14.0	0.0
Odyssey Reinsurance Company	0.0	7.0	0.0
Partner Reinsurance Company of the U.S.	2.5	2.5	0.0
Transatlantic Reinsurance Company	0.0	3.0	0.0
Total Subscribing Reinsurers	80.0%	100.0%	100.0%

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

Scope: Property business with certain named exclusions

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

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

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

Commissions: None

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

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

3. Type: Casualty Excess of Loss

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

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

Scope: Casualty business

Retention: Retention is $5 million.

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

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

Commissions: None

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

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

4. Type: Workers' Compensation Excess of Loss

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

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

Scope: Workers' compensation, including employers' liability

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

Coverage: The contract provides the following coverage.

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

Commissions: None

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

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

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

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

Subscribing Reinsurer	Layer 1	Layer 2
BGS Services (Bermuda) Limited	4.25%	4.00%

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

Scope: All property and casualty business

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

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

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

Commissions: None

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

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

6. Type: Workers' Compensation Catastrophe Excess of Loss

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

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

Scope: Workers' compensation, including employers' liability

Retention: Retention is $150 million.

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

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

Commissions: None

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

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

Nonaffiliated Assuming Contracts

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

VI. FINANCIAL DATA

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

Viking Insurance Company of Wisconsin
Assets
As of December 31, 2018

	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	$324,902,201	$	$324,902,201
Stocks:			
Common stocks	28,024,222		28,024,222
Real estate:			
Occupied by the company	2,969,844		2,969,844
Cash, cash equivalents, and short-term investments	7,584,162		7,584,162
Receivables for securities	6,215		6,215
Investment income due and accrued	3,018,236		3,018,236
Premiums and considerations:			
Uncollected premiums and agents' balances in course of collection	20,953,352	91,069	20,862,282
Deferred premiums, agents' balances, and installments booked but deferred and not yet due	29,940,778	47,937	29,892,841
Accrued retrospective premiums and contracts subject to redetermination	7,982,635	341,472	7,641,163
Reinsurance:			
Amounts recoverable from reinsurers	64,354,163		64,354,163
Net deferred tax asset	14,834,827	4,539,941	10,294,886
Guaranty funds receivable or on deposit	61,536		61,536
Receivable from parent, subsidiaries, and affiliates	5,028,734		5,028,734
Health care and other amounts receivable			
Write-ins for other than invested assets:			
Cash surrender value of life insurance	1,797,927		1,797,927
Amounts billed & receivable under high deductible policies	1,790,415	16,102	1,774,313
Prepaid surcharges	190,718		190,718
Equities and deposits in pools and associations	1,440		1,440
Prepaid expenses	6,367	6,367	
Total Assets	$513,447,771	$5,042,888	$508,404,884

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

Losses		$140,086,204
Reinsurance payable on paid loss and loss adjustment expenses		14,644,080
Loss adjustment expenses		32,930,513
Commissions payable, contingent commissions, and other similar charges		2,365,231
Other expenses (excluding taxes, licenses, and fees)		17,866,881
Taxes, licenses, and fees (excluding federal and foreign income taxes)		1,023,829
Current federal and foreign income taxes		69,934
Unearned premiums		52,462,133
Advance premium		372,943
Dividends declared and unpaid:		
Policyholders		508,334
Ceded reinsurance premiums payable (net of ceding commissions)		69,830,969
Amounts withheld or retained by company for account of others		594,506
Remittances and items not allocated		138,072
Payable for securities		2,870,380
Write-ins for liabilities:		
A/P – other		746,004
Escheat funds		431,172
Premium deficiency liability assumed		345,000
Recoverable on retro reinsurance contract		(148,466)
Total Liabilities		337,137,718
Common capital stock	$ 3,000,000	
Gross paid in and contributed surplus	149,336,765	
Unassigned funds (surplus)	18,930,401	
Surplus as Regards Policyholders		171,267,166
Total Liabilities and Surplus		$508,404,884

Viking Insurance Company of Wisconsin
Summary of Operations
For the Year 2018

Underwriting Income		
Premiums earned		$111,317,530
Deductions:		
Losses incurred	$68,929,228	
Loss adjustment expenses incurred	14,468,520	
Other underwriting expenses incurred	33,087,013	
Write-ins for underwriting deductions:		
Change in premium deficiency	45,000	
Total underwriting deductions		116,529,761
Net underwriting gain (loss)		(5,212,230)
Investment Income		
Net investment income earned	11,442,284	
Net realized capital gains (losses)	(904,592)	
Net investment gain (loss)		10,537,692
Other Income		
Net gain (loss) from agents' or premium balances charged off	(1,338,938)	
Finance and service charges not included in premiums	2,742,651	
Write-ins for miscellaneous income:		
Miscellaneous income (expense)	83,622	
Total other income		1,487,336
Net income (loss) before dividends to policyholders and before federal and foreign income taxes		6,812,798
Dividends to policyholders		356,263
Net income (loss) after dividends to policyholders but before federal and foreign income taxes		6,456,535
Federal and foreign income taxes incurred		1,269,306
Net Income		$ 5,187,229

Viking Insurance Company of Wisconsin
Cash Flow
For the Year 2018

Premiums collected net of reinsurance			$116,374,114
Net investment income			13,199,501
Miscellaneous income			1,487,336
Total			131,060,950
Benefit- and loss-related payments		$63,808,199	
Commissions, expenses paid, and aggregate write-ins for deductions		44,678,563	
Dividends paid to policyholders		336,284	
Federal and foreign income taxes paid (recovered)		1,520,558	
Total deductions			110,343,604
Net cash from operations			20,717,346
Proceeds from investments sold, matured, or repaid:			
Bonds		$83,906,200	
Cost of investments acquired (long-term only):			
Bonds	$90,669,661		
Real estate	516,616		
Miscellaneous applications	5,099,863		
Total investments acquired		96,286,140	
Net cash from investments			(12,379,940)
Cash from financing and miscellaneous sources:			
Dividends to stockholders		741,724	
Other cash provided (applied)		(6,924,083)	
Net cash from financing and miscellaneous sources			(7,665,808)
Reconciliation:			
Net Change in Cash, Cash Equivalents, and Short-Term Investments			671,599
Cash, cash equivalents, and short-term investments:			
Beginning of year			6,912,562
End of Year			$ 7,584,162

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

Assets			$508,404,884
Less security surplus of insurance subsidiaries			2,800,000
Less liabilities			337,137,718
Adjusted surplus			168,467,166
Annual premium:			
Individual accident and health	$ 1,942		
Factor	15%		
Total		$ 291	
Group accident and health	630,778		
Factor	10%		
Total		63,078	
Lines other than accident and health	113,432,285		
Factor	20%		
Total		22,686,457	
Compulsory surplus (subject to a minimum of $2 million)			22,749,826
Compulsory Surplus Excess (Deficit)			$145,717,340
Adjusted surplus (from above)			$168,467,166
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%)			31,167,262
Security Surplus Excess (Deficit)			$137,299,904

Viking Insurance Company of Wisconsin
Analysis of Surplus
For the Five-Year Period Ending December 31, 2018

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

	2018	2017	2016	2015	2014
Surplus, beginning of year	$172,798,036	$178,169,961	$179,673,535	$179,072,362	$178,176,457
Net income	5,187,229	6,697,895	7,808,507	9,005,408	8,277,960
Change in net unrealized capital gains/losses	(209,747)	36,843	(89,917)	(542,755)	636,918
Change in net deferred income tax	513,967	(8,468,916)	32,871	(126,149)	(765,953)
Change in nonadmitted assets	(522,320)	3,862,253	(755,035)	264,669	746,979
Dividends to stockholders	(6,500,000)	(7,500,000)	(8,500,000)	(8,000,000)	(8,000,000)
Surplus, End of Year	$171,267,166	$172,798,036	$178,169,961	$179,673,535	$179,072,362

Viking Insurance Company of Wisconsin
Insurance Regulatory Information System
For the Five-Year Period Ending December 31, 2018

The company's NAIC Insurance Regulatory Information System (IRIS) results for the period under examination are summarized below. There were no unusual results.

	Ratio	2018	2017	2016	2015	2014
#1	Gross Premium to Surplus	412%	372%	322%	287%	290%
#2	Net Premium to Surplus	67	61	56	52	51
#3	Change in Net Premiums Written	9	5	7	3	-0
#4	Surplus Aid to Surplus	0	0	0	0	0
#5	Two-Year Overall Operating Ratio	92	91	89	87	88
#6	Investment Yield	3.2	3.5	3.6	3.9	3.6
#7	Gross Change in Surplus	-1	-3	-1	0	1
#8	Change in Adjusted Surplus	-1	-3	-1	0	1
#9	Liabilities to Liquid Assets	92	87	64	63	62
#10	Agents' Balances to Surplus	12	9	3	3	3
#11	One-Year Reserve Development to Surplus	-1	-1	-1	-2	-2
#12	Two-Year Reserve Development to Surplus	-1	-2	-2	-3	-3
#13	Estimated Current Reserve Deficiency to Surplus	2	1	-1	-8	-2

Growth of Viking Insurance Company of Wisconsin

Year	Admitted Assets	Liabilities	Surplus as Regards Policyholders	Net Income
2018	$508,404,884	$337,137,718	$171,267,166	$5,187,229
2017	493,857,601	321,059,565	172,798,036	6,697,895
2016	408,911,990	230,742,030	178,169,961	7,808,507
2015	398,955,337	219,281,802	179,673,535	9,005,408
2014	387,726,957	208,654,595	179,072,362	8,277,960
2013	381,328,273	203,151,816	178,176,457	7,431,595

Year	Gross Premium Written	Net Premium Written	Premium Earned	Loss and LAE Ratio	Expense Ratio	Combined Ratio
2018	$705,177,030	$114,399,113	$111,317,530	74.9%	27.7%	102.6%
2017	642,774,391	105,404,187	103,663,865	74.8	28.6	103.4
2016	574,249,110	100,624,695	98,286,894	73.9	28.2	102.1
2015	516,149,401	93,851,002	90,422,495	72.7	27.5	100.2
2014	518,589,401	90,697,895	90,607,347	74.9	25.7	100.6
2013	578,517,428	90,877,923	88,585,966	76.3	24.8	101.1

The company's surplus fell from $178 million to $171 million since the previous examination, primarily due to a decrease in deferred tax assets in 2017 driven by the Tax Cuts and Jobs Act. Viking reported net income in each year under examination and paid $38.5 million in stockholders' dividends to its parent, Sentry Insurance, over the past five years. During the period under examination gross premium increased 22% and net premium increased 26%. The increase in gross premium was due to an increase in assumed premium from its wholly owned subsidiary, Peak, and an increase in direct writings. The combined ratio remained slightly above 100%, increasing in 2016 and 2017 before beginning to decrease in 2018. Net investment gains over the period offset the effects of combined ratios that exceeded 100%, as the company recorded net income in each of the last five years.

Reconciliation of Surplus per Examination

No adjustments were made to surplus as a result of the examination. The amount of surplus reported by the company as of December 31, 2018, is accepted.

VII. SUMMARY OF EXAMINATION RESULTS

Compliance with Prior Examination Report Recommendations

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

1. Actuarial Examination—It is recommended that future actuarial reports contain updated and completed work papers and documentation with respect to the gross loss and LAE reserves in general and the GL/PL liability segments in particular.

   Action—Compliance.

Summary of Current Examination Results

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

VIII. CONCLUSION

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

Viking directly underwrites products in the Dairyland Auto and Dairyland Cycle business units of the Sentry Insurance Group. Viking's reported surplus remained nearly unchanged over the examination period. Gross premium writings increased steadily over the examination period due to an increase in direct premiums as well as an increase in assumed premiums from Peak. Net investment gains over the period have offset the effects of combined ratios that exceeded 100%, as the company recorded net income in each of the last five years.

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

IX. SUMMARY OF COMMENTS AND RECOMMENDATIONS

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

X. ACKNOWLEDGMENT

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

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

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

Respectfully submitted,

Diana M. Havitz
Examiner-in-Charge

XI. SUBSEQUENT EVENTS

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

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