

Report of the Examination of
Acuity, a Mutual Insurance Company
Sheboygan, Wisconsin
As of December 31, 2019

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November 4, 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:

ACUITY, A MUTUAL INSURANCE COMPANY
Sheboygan, Wisconsin

and this report is respectfully submitted.

I. INTRODUCTION

The previous examination of Acuity, a Mutual Insurance Company (Acuity or the company) was conducted in 2015 as of December 31, 2014. The current examination covered the intervening period ending December 31, 2019, and included a review of such subsequent transactions as deemed necessary to complete the examination.

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.

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 the State of Wisconsin on August 11, 1925, under the name of Mutual Automobile Insurance Company of the Town of Herman, and commenced business on September 25, 1925. Operations were initially restricted to Sheboygan County, Wisconsin, but the territory of the company was gradually extended. The name was changed in May 1954 to Mutual Auto Insurance Company. In December 1957, the company changed its name to Heritage Mutual Insurance Company. The present name was adopted in March 2001. The company absorbed Bloomfield Mutual Insurance Company of West Bloomfield, Wisconsin, through a merger on January 22, 1982.

The company sold its wholly owned subsidiary, Greatway Insurance Company (Greatway), to Anchor General Insurance Company, a California company, effective December 31, 2006. Greatway had been largely inactive since June of 2000. Effective November 30, 2007, ACUITY BANK, SSB and its subsidiaries were dissolved. As a result of those transactions, the company had only one remaining subsidiary, Westland Insurance Services, Inc. This subsidiary's material assets were sold to TRICOR, Inc. effective June 30, 2015.

The company purchased a new subsidiary, Arapaho General Agency, Inc. on August 22, 2017. This subsidiary was immediately renamed Acuity TX MGA, Inc. (Acuity TX). Acuity TX is a Texas-domiciled managing general agent that Acuity operates to facilitate its personal auto business in the state of Texas. Acuity TX entered into a managing general agent agreement with Home State County Mutual Insurance Company, which cedes 100% of the personal auto business it writes for Acuity TX directly to Acuity.

On March 6, 2020, Acuity's board of directors approved the formation of a new subsidiary named Abuzz Insurance Agency, Inc. (Abuzz). Additional information concerning this subsidiary can be found in the Affiliated Companies section of this report.

In 2019, the company wrote direct premium in the following states:

<u>State</u>	<u>Direct Premium</u>	<u>Percent</u>
Wisconsin	\$ 428,455,432	25.8%
Illinois	150,917,980	9.1
Minnesota	108,370,994	6.5
Missouri	76,922,382	4.6
Ohio	75,076,601	4.5
Indiana	70,494,995	4.3
Michigan	66,507,610	4.0
Arizona	66,245,683	4.0
Colorado	64,606,910	3.9
Pennsylvania	58,804,254	3.5
Tennessee	52,311,162	3.2
South Dakota	51,835,334	3.1
Iowa	50,612,307	3.1
Nevada	45,498,840	2.7
Utah	43,095,707	2.6
Kentucky	41,889,109	2.5
Texas	40,566,174	2.4
All others	<u>165,412,800</u>	<u>10.0</u>
Total	<u>\$1,657,624,274</u>	<u>100.0%</u>

As of the examination date, the company was licensed in 37 states. In addition to the states noted above, the company is also licensed in the following 10 states where it did not write business in 2019: Alabama, Arkansas, Delaware, Georgia, Mississippi, Oklahoma, Oregon, Virginia, Washington, and West Virginia.

The company writes commercial and personal lines utilizing a distribution network of approximately 1,000 independent agents. The company's mix of business is approximately 75% commercial lines and 25% personal lines, with the largest product segment represented by commercial auto (liability and physical damage) followed by worker's compensation. Approximately 33% of the worker's compensation policies are written in Wisconsin on a fixed-cost, flat, or variable dividend basis, with scheduled rating adjustments available in other states. The company's commercial products also include the Bis-Pak, a commercial multiple peril policy for smaller business owners; general liability; commercial umbrella; and inland marine coverages. Much of its commercial automobile book is trucking-related. Its largest personal lines product is personal automobile (liability and physical damage) followed by homeowners multiple peril. A tiered rating approach is used to segment and price risks. Among the other personal lines products offered are personal auto, a personal lines package policy, motorcycle, recreational vehicles, and umbrella coverages.

The following table is a summary of the net insurance premiums written by the company in 2019. 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	\$ 45,833,617	\$	\$ 2,916,766	\$ 42,916,851
Allied lines	52,103,660		3,176,702	48,926,958
Homeowners multiple peril	155,271,098		9,615,113	145,655,985
Commercial multiple peril	183,843,952		6,803,486	177,040,466
Inland marine	44,033,633		378,524	43,655,109
Worker’s compensation	260,324,669		14,984,193	245,340,476
Other liability – occurrence	162,062,077		23,816,890	138,245,187
Other liability – claims made	3,974,378			3,974,378
Products liability – occurrence	8,370,766		195,360	8,175,406
Private passenger auto liability	121,739,259	180,239		121,919,498
Commercial auto liability	331,438,185		2,409,767	329,028,418
Auto physical damage	277,153,150	170,905	1,277,475	276,046,580
Fidelity	1,099,340			1,099,342
Burglary and theft	324,045			324,045
Boiler and machinery	<u>10,052,443</u>	<u> </u>	<u>10,052,443</u>	<u> </u>
Total All Lines	<u>\$1,657,624,274</u>	<u>\$351,144</u>	<u>\$75,626,719</u>	<u>\$1,582,348,699</u>

III. MANAGEMENT AND CONTROL

Board of Directors

The board of directors consists of 13 members. Up to five directors are elected annually to serve a three-year term. Officers are elected at the board's annual meeting. External board members currently receive \$203,000 annually for serving on the board, paid in either cash or deferred into a Phantom Stock Plan account. This plan allows for executives and directors to be awarded units that act as stock shares. Units that are awarded to executives are one-third vested each year over a three-year period except for the president whose shares are fully vested when awarded. Directors' shares vest quarterly.

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

Name and Residence	Principal Occupation	Term Expires
Michael Robert Duckett Brookfield, Wisconsin	President Duckett Group	2021
Margaret Ann Farrow Pewaukee, Wisconsin	Consultant of Public Affairs Self-Employed	2021
Harold Gaylon Greenhill Whitewater, Wisconsin	Chancellor, Retired University of Wisconsin-Whitewater	2022
Paul Jeffrey Hoffman Appleton, Wisconsin	Construction Industry Consultant Self-Employed	2021
Steven Jay Jaberg Fort Meyers, Florida	Executive, Retired Benevolent Corp. Cedar Community	2022
Rhonda Elizabeth Kirkwood Ellison Bay, Wisconsin	Consultant Kirkwood Consulting	2020
Lisa Ann Mauer Wauwatosa, Wisconsin	Chair & Owner Rickert Industries	2022
Kurt Lee Olson Warrens, Wisconsin	Cranberry Grower Olson Brothers Cranberry Company	2020
Richard Franklin Riley, Jr. Charlottesville, Virginia	Law Firm Partner Foley & Lardner, LLP	2020
Benjamin Michael Salzmann Kohler, Wisconsin	President & CEO Acuity, a Mutual Insurance Company	2021
John Francis Schwalbach Anthem, Arizona	Physician, Retired Aurora Health Care	2021

Name and Residence	Principal Occupation	Term Expires
Harold Charles Trescott Cedarburg, Wisconsin	Executive, Retired Acuity, a Mutual Insurance Company	2020
Robert Thomas Willis Elkhart Lake, Wisconsin	Physician, Retired Aurora Health Care	2022

Officers of the Company

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

Name	Office
Benjamin Michael Salzmann	President & CEO
Shane Alan Paltzer	Assistant Corporate Secretary and Vice President – Marketing & Personal Lines
Wendy Rae Schuler	Treasurer and Vice President – Finance
John Francis Schwalbach	Secretary
Marcus Carl Knuth	Vice President – Enterprise Technology
James Joseph Loiacono	Vice President – Claims
Joan Ravanelli Miller	General Counsel and Vice President – Human Resources
Sheri Lynn Murphy	Assistant Corporate Secretary and Vice President – Services & Administration
Patrick Nicholas Tures	Vice President – Actuarial & Strategic Analytics
Richard Andrew Waldhart	Vice President – Sales & Communications
Edgar Nys Warren	Vice President – Commercial Insurance
Melissa Ruth Winter	Vice President – Business Consulting

Committees of the Board

The company's bylaws allow for the formation of certain committees by the board of directors.

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

Audit Committee

Michael Duckett, Chair
Rhonda Kirkwood
Richard Riley
Harold Trescott

Executive Committee

Gaylon Greenhill, Chair
Margaret Farrow
Lisa Mauer
Benjamin Salzmann
Robert Willis

Finance Committee

John Schwalbach, Chair
Paul Hoffman
Steven Jaberg
Kurt Olsen

Enterprise Risk Management Committee

Michael Duckett, Chair
Rhonda Kirkwood
Richard Riley
Harold Trescott

Information Security Committee

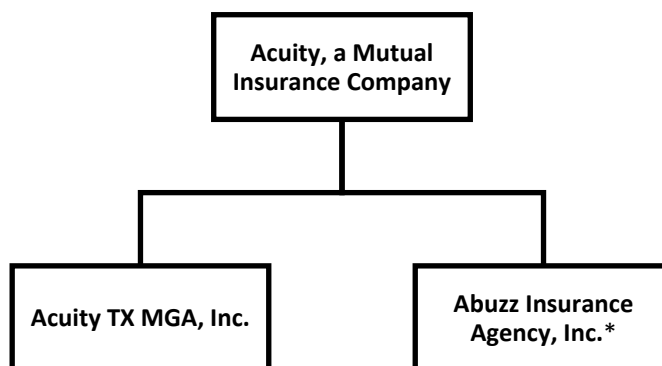
Michael Duckett, Chair
Rhonda Kirkwood
Richard Riley
Harold Trescott

IV. AFFILIATED COMPANIES

Acuity is a member of a holding company system. The 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, 2019



* Abuzz was formed on March 6, 2020.

Acuity TX MGA, Inc.

Acuity TX is a Texas-domiciled managing general agent. It was formed to facilitate underwriting personal auto business in Texas through a Texas county mutual. All business written through the subsidiary's managing general agency agreement and written through the Texas county mutual is then 100% ceded back to Acuity. As of December 31, 2019, audited financial statements for Acuity TX were waived by the Wisconsin OCI as net income was \$0 and all activity was ceded to Acuity. Shareholder equity was \$101,000 and comprised of 100% owned common stock and gross paid-in capital contributed by Acuity.

Abuzz Insurance Agency, Inc.

On March 6, 2020, Acuity's board of directors agreed to form a new legal entity called Abuzz. Abuzz is an insurance agency created to provide an online (digital) channel for Acuity to directly sell its policies or refer customers to other carriers, depending on the customer's needs and risk profile. At this time, Abuzz is still in the process of being established and has not yet begun writing or conducting business.

Agreements with Affiliates

Service Agreement

The company has a service agreement with Acuity TX effective August 22, 2017, whereby Acuity provides a number of services on behalf of Acuity TX, including underwriting, claims administration, accounting services, general administrative services, record keeping, and supervisory administrative services. The company is authorized to pay all ordinary and necessary expenses associated with performance of these services. The company and Acuity TX have a relationship of independent contractors for the purposes of this agreement. In the event that either Acuity or Acuity TX fails to perform its covenants for 30 days or more, a condition of default shall exist and the non-defaulting party may terminate the contract.

Federal Tax Sharing Agreement

The company has a federal income tax sharing agreement with Acuity TX effective August 22, 2017, whereby Acuity TX pays the company for an amount not to exceed the amount of tax they would have paid had a tax return been filed on a separate return basis. In the event that Acuity TX's operations result in a tax loss, the company will pay to Acuity TX in cash the refund to which they would have been entitled had they filed a separate return, to the extent there is a taxable benefit arising from the loss in the consolidated tax return. Settlement between the parties is to occur within 45 days of the date on which the consolidated federal income tax return is required to be filed. This agreement is in effect for each taxable year for which a consolidated return is filed unless the agreement is amended, replaced, or terminated. This agreement was amended effective October 31, 2020, to include Abuzz Insurance Agency, Inc. as a participating subsidiary.

Non-Wisconsin State Tax Sharing Agreement

The company has a state income tax sharing agreement, applicable to the payment of state income taxes to states other than Wisconsin, with Acuity TX effective October 24, 2017, whereby Acuity TX pays the company an amount not to exceed the amount of non-Wisconsin state income tax they would have paid had a non-Wisconsin income tax return been filed on a separate return basis. In the event that Acuity TX's operations result in a non-Wisconsin state income tax loss, the company will pay to Acuity TX in cash the refund to which they would have been entitled had they filed a separate non-

Wisconsin state income tax return, where such tax shall be calculated by applying the applicable state income tax rate to Acuity TX's separate non-Wisconsin state apportioned taxable income, to the extent there is a taxable benefit arising from the loss in the non-Wisconsin combined state income tax return. Settlement between the parties is to occur within 45 days of the date on which the non-Wisconsin combined state income tax return is required to be filed. This agreement is in effect for each taxable year for which a non-Wisconsin combined state income tax return is filed unless the agreement is amended, replaced, or terminated. This agreement was amended effective October 31, 2020, to include Abuzz Insurance Agency, Inc. as a participating subsidiary.

Wisconsin State Tax Sharing Agreement

The company has a Wisconsin state income tax sharing agreement with Abuzz effective October 31, 2020, whereby Abuzz pays the company an amount not to exceed the amount of Wisconsin state income tax they would have paid had a Wisconsin state income tax return been filed on a separate return basis. In the event that Abuzz's operations result in a Wisconsin state income tax loss, the company will pay to Abuzz in cash the refund to which they would have been entitled had they filed a separate Wisconsin state income tax return, to the extent there is a taxable benefit arising from the loss in the Wisconsin combined tax return. Settlement between the parties is to occur within 45 days of the date on which the Wisconsin combined income tax return is required to be filed. This agreement is in effect for each taxable year for which a Wisconsin combined income tax return is filed unless the agreement is amended, replaced, or terminated.

Service Agreement with Abuzz

The company has a service agreement with Abuzz effective October 31, 2020, whereby Acuity shall provide Abuzz with certain insurance agency, accounting, payroll, human resources, and general administrative services (including data processing, recordkeeping, and facilities). Acuity will invoice Abuzz monthly for services provided. Abuzz shall reimburse Acuity dollar for dollar for all agency, accounting, human resources/payroll, and administrative services provided by Acuity, together with all ordinary and necessary expenses as required in the performance of such services within 30 days of the date of the invoice. This agreement shall be renewed on an annual basis on the anniversary date, unless

either Acuity or Abuzz notifies the other of its intent to terminate the agreement at least 90 days prior to any such anniversary date.

Agency Agreement with Abuzz

The company has an agency agreement with Abuzz effective October 31, 2020, whereby Acuity appoints Abuzz as an agent of the company. The agreement sets forth the authority granted to Abuzz and the responsibilities of Abuzz and Acuity. Commissions on premiums shall be the only compensation Abuzz shall accept from any party for the placement of insurance with Acuity, and shall be paid to Abuzz by the company within 30 days after the end of the month in which such premiums are received and recorded by Acuity. The agreement may be terminated at any time upon mutual agreement of the parties, or by either party, for any reason, upon 90 days' written notice.

V. REINSURANCE

The company's reinsurance portfolio and strategy at the time of the examination are described below. A list of the companies that have a significant amount of reinsurance in force at the time of the examination follows. The contracts contained proper insolvency provisions.

Nonaffiliated Ceding Contracts

1. Type: Underlying Multiple Line Excess of Loss
Reinsurer: Various subscribing reinsurers as brokered through Holborn Corporation.

<u>Subscribing Reinsurer</u>	<u>Allocation</u>
Axis Reinsurance Company	7.10%
Employers Mutual Casualty Company	11.00
Hannover Rück SE	35.00
Mutual Reinsurance Bureau	
Church Mutual Insurance Company	6.25
Kentucky Farm Bureau	6.25
Mutual Insurance Company	
Motorists Mutual Insurance Company	6.25
Renaissance Reinsurance U.S. Inc.	6.25
SCOR Reinsurance Company	<u>7.10</u>
Total Subscribing Reinsurers	<u>85.20%</u>

- Scope: Section A: Property
Section B: Casualty
Section C: All losses involving Sections A and B
- Retention: Section A: \$1,500,000 each loss, each risk
Section B – Worker's Compensation and Employers' Liability: \$1,500,000 in aggregate, each insured
Section B – Other: \$1,500,000 each loss, each event
- Coverage: Section A: \$1,000,000 each loss, each risk, subject to a per occurrence limit of \$3,000,000 and an annual aggregate limit of \$5,000,000 for terrorism
Section B – Worker's Compensation and Employers' Liability: \$1,000,000 in aggregate, each insured
Section B – Other: \$1,000,000 each loss, each risk, subject to a per occurrence limit of \$1,000,000 and an annual aggregate limit of \$5,000,000 for terrorism
Section C: \$1,500,000 each and every event, for any loss involving both Sections A and B
- Commissions: None

Effective date: January 1, 2020
Termination: January 1, 2021
2. Type: First Multiple Line Excess of Loss
Reinsurer: Various subscribing reinsurers as brokered through Holborn Corporation.

<u>Subscribing Reinsurer</u>	<u>Allocation</u>
Axis Reinsurance Company	8.33%
Employers Mutual Casualty Company	10.40
Hannover Rück SE	35.00
Mutual Reinsurance Bureau	
Church Mutual Insurance Company	2.36
Kentucky Farm Bureau	2.36
Mutual Insurance Company	
Motorists Mutual Insurance Company	2.36
Renaissance Reinsurance U.S. Inc.	2.36
QBE Reinsurance Corporation	10.00
SCOR Reinsurance Company	19.33
The Toa Reinsurance Company of America	7.50
Total Subscribing Reinsurers	<u>100.00%</u>

Scope: Section A: Property
Section B: Casualty

Retention: Section A: \$2,500,000 each loss, each risk
Section B – Worker’s Compensation and Employers’ Liability:
\$2,500,000 in aggregate, each insured
Section B – Other: \$2,500,000 each loss, each event

Coverage: Section A: \$2,500,000 each loss, each risk, subject to a per occurrence limit of \$7,500,000 and an annual aggregate limit of \$12,500,000 for terrorism
Section B – Worker’s Compensation and Employers’ Liability:
\$2,500,000 in aggregate, each insured
Section B – Other: \$2,500,000 each loss, each risk, subject to a per occurrence limit of \$2,500,000 and an annual aggregate limit of \$12,500,000 for terrorism

Commissions: None

Effective date: January 1, 2020
Termination: January 1, 2021

3. Type: Second Multiple Line Excess of Loss
 Reinsurer: Various subscribing reinsurers as brokered through Holborn Corporation.

<u>Subscribing Reinsurer</u>	<u>Allocation</u>
Axis Reinsurance Company	8.33%
Employers Mutual Casualty Company	11.00
Hannover Rück SE	35.00
Mutual Reinsurance Bureau	
Church Mutual Insurance Company	2.50
Kentucky Farm Bureau	2.50
Mutual Insurance Company	
Motorists Mutual Insurance Company	2.50
Renaissance Reinsurance U.S. Inc.	2.50
QBE Reinsurance Corporation	10.00
SCOR Reinsurance Company	20.67
Transatlantic Reinsurance Company	5.00
Total Subscribing Reinsurers	<u>100.00%</u>

Scope: Section A: Property

Section B: Casualty

Retention: Section A: \$5,000,000 each loss, each risk

Section B – Worker’s Compensation and Employers’ Liability:
 \$5,000,000 in aggregate, each insured

Section B – Other: \$5,000,000 each loss, each event

Coverage: Section A: \$13,000,000 each loss, each risk, subject to a per occurrence limit of \$26,000,000 and an annual aggregate limit of \$26,000,000 for terrorism

Section B – Worker’s Compensation and Employers’ Liability:
 \$13,000,000 in aggregate, each insured

Section B – Other: \$13,000,000 excess of \$5,000,000 each loss, each risk, subject to a per occurrence limit of \$13,000,000 and an annual aggregate limit of \$26,000,000 for terrorism

Commissions: None

Effective date: January 1, 2020

Termination: January 1, 2021

4. Type: Third Casualty Excess of Loss
 Reinsurer: Various subscribing reinsurers as brokered through Holborn Corporation.

<u>Subscribing Reinsurer</u>	<u>Allocation</u>
Arch Reinsurance Company	5.00%
Aspen Re America, Inc.	3.00
Axis Reinsurance Company	8.33
Employers Mutual Casualty Company	3.00
General Reinsurance Company	11.35
Hannover Rück SE	8.34
Safety National Casualty Corporation	10.00
SCOR Reinsurance Company	8.33
Transatlantic Reinsurance Company	20.00
Various Lloyd's Underwriters	17.65
XL Reinsurance America, Inc.	5.00
Total Subscribing Reinsurers	<u>100.00%</u>

Scope: Casualty
 Retention: \$18,000,000 each event
 Coverage: \$18,000,000 each event, subject to an annual aggregate limit of \$18,000,000 for Occupational Disease and Cumulative Injury, \$18,000,000 aggregate for Products/Completed Operations of Commercial General Liability involving two or more policies insured by Acuity, and \$36,000,000 aggregate for all other events, including terrorism
 Commissions: None
 Effective date: January 1, 2020
 Termination: January 1, 2021

5. Type: Fourth Casualty Excess of Loss
 Reinsurer: Various subscribing reinsurers as brokered through Holborn Corporation.

<u>Subscribing Reinsurer</u>	<u>Allocation</u>
Arch Reinsurance Company	24.50%
Aspen Re America, Inc.	4.00
Axis Reinsurance Company	8.33
Employers Mutual Casualty Company	3.00
Hannover Rück SE	8.34
Safety National Casualty Corporation	10.00
SCOR Reinsurance Company	8.33
Transatlantic Reinsurance Company	1.65
Various Lloyd's Underwriters	26.85
XL Reinsurance America, Inc.	5.00
Total Subscribing Reinsurers	<u>100.00%</u>

Scope: Casualty
 Retention: \$36,000,000 each event

Coverage: \$64,000,000 each event, subject to an annual aggregate limit of \$64,000,000 for Occupational Disease and Cumulative Injury, \$64,000,000 aggregate for terrorism, \$64,000,000 aggregate for Products/Completed Operations of Commercial General Liability involving two or more policies insured by Acuity, and \$128,000,000 aggregate for all other events

Commissions: None

Effective date: January 1, 2020

Termination: January 1, 2021

6. Type: Worker's Compensation Per Person Excess of Loss

Reinsurer: Safety National Casualty Corporation as brokered through Holborn Corporation.

Scope: Worker's Compensation and Employers Liability

Retention: \$18,000,000 per person

Coverage: \$2,000,000 per person per occurrence, \$2,000,000 in aggregate for terrorism, and \$4,000,000 per person in aggregate

Commissions: None

Effective date: January 1, 2020

Termination: January 1, 2021

7. Type: Property Per Risk Excess of Loss

Reinsurer: Various subscribing reinsurers as brokered through Holborn Corporation.

<u>Subscribing Reinsurer</u>	<u>Allocation</u>
Aspen Re America, Inc.	4.00%
Axis Reinsurance Company	8.33
Employers Mutual Casualty Company	10.00
Hannover Rück SE	8.34
Lancashire Insurance Company Limited	3.75
SCOR Reinsurance Company	20.83
Various Lloyd's Underwriters	<u>44.75</u>
Total Subscribing Reinsurers	<u>100.00%</u>

Scope: Property

Retention: \$18,000,000 each risk, each loss

Coverage: \$42,000,000 each risk, each loss, \$42,000,000 in aggregate for terrorism only and \$42,000,000 per loss occurrence

Commissions: None

Effective date: January 1, 2020

Termination: January 1, 2021

8. Type: Multi-Year Property Catastrophe Excess of Loss

Reinsurer: Various subscribing reinsurers as brokered through Holborn Corporation.

<u>Subscribing Reinsurer</u>	<u>Allocation</u>
Allied World Reinsurance Management Company	2.50%
Axis Reinsurance Company	2.72
Employers Mutual Casualty Company	3.50
Hannover Rück SE	2.73
R+V Versicherung AG	15.00
SCOR Reinsurance Company	2.72
Various Lloyd's Underwriters	3.50
Total Subscribing Reinsurers	<u>32.67%</u>

Scope: Property

Retention: \$12,500,000 per occurrence

Coverage: \$7,500,000 per occurrence, \$15,000,000 in aggregate

Commissions: None

Effective date: January 1, 2019

Termination: January 1, 2021

9. Type: Property Catastrophe Excess of Loss

Reinsurer: Various subscribing reinsurers as brokered through Holborn Corporation.

<u>Subscribing Reinsurer</u>	<u>Layer 1</u>	<u>Layer 2</u>	<u>Layer 3</u>	<u>Layer 4</u>	<u>Layer 5</u>
Allied World Reinsurance Management Company	6.00%	5.00%	0.00%	1.00%	0.75%
American Agricultural Insurance Company	0.00	4.00	5.00	1.50	1.25
Arch Reinsurance Company	0.00	0.00	0.00	7.25	24.50
Ariel RE BDA Limited	0.00	0.00	6.00	2.25	0.00
Axis Reinsurance Company	10.66	8.33	8.33	5.00	1.00
Brit Bermuda LTD	0.00	0.00	4.00	3.50	0.00
DEVK Rückversicherungs- Und Beteiligungs-AG	0.00	0.00	2.25	2.25	0.00
Dual Commercial LLC	0.00	3.50	0.00	1.50	0.00
Employers Mutual Casualty Company	0.00	3.50	3.50	0.00	0.00
Endurance Reinsurance	0.00	4.50	0.00	0.00	0.00
Fidelis Insurance Bermuda Limited	0.00	0.00	0.00	0.00	20.00
Fidelis Underwriting Limited	0.00	7.50	2.50	0.00	10.50
Hamilton RE, LTD	0.00	2.00	2.00	2.00	0.00
Hannover Rück SE	3.17	8.34	8.34	6.50	6.50
Länsförsäkringar Sak Försäkringsaktiebolag	0.00	0.00	0.00	1.50	0.00

<u>Subscribing Reinsurer</u>	<u>Layer 1</u>	<u>Layer 2</u>	<u>Layer 3</u>	<u>Layer 4</u>	<u>Layer 5</u>
Mapfre RE Compania De Reaseguros	0.00	8.50	8.50	7.50	2.00
MS Amlin AG, Bermuda Branch	0.00	0.00	0.00	2.40	3.00
QBE Reinsurance Corporation	0.00	2.00	0.00	0.00	0.00
R+V Versicherung AG	15.00	0.00	0.00	10.00	5.00
SCOR Reinsurance Company	3.17	8.33	8.33	0.00	0.00
Sirius International Insurance Corp.	0.00	2.00	2.00	8.00	3.00
Sompo International Reinsurance	0.00	12.00	12.00	9.25	6.00
The Toa Reinsurance Company of America	0.00	2.00	0.00	0.00	0.00
Various Lloyd's Underwriters	<u>0.00</u>	<u>18.50</u>	<u>27.25</u>	<u>28.60</u>	<u>16.50</u>
Total Subscribing Reinsurers	<u>38.00%</u>	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>

Scope: Property

Retention: The following retentions are established for each layer.

<u>Layer</u>	<u>Retention</u>
First	\$ 15,000,000
Second	20,000,000
Third	40,000,000
Fourth	65,000,000
Fifth	175,000,000

Coverage: The following coverage limits are established for each layer.

<u>Layer</u>	<u>Per Occurrence</u>	<u>In Aggregate</u>
First	\$ 5,000,000	\$ 10,000,000
Second	20,000,000	40,000,000
Third	25,000,000	50,000,000
Fourth	110,000,000	220,000,000
Fifth	60,000,000	120,000,000

Commissions: None

Effective date: January 1, 2020

Termination: January 1, 2021

10. Type: Property Catastrophe Excess of Loss

Reinsurer: Lancashire Insurance Company Limited as brokered through Holborn Corporation.

Scope: Property

Retention: \$235,000,000 per occurrence

Coverage: \$37,500,000 per occurrence, \$75,000,000 in aggregate

Commissions: None

Effective date: January 1, 2020
 Termination: January 1, 2021
 11. Type: Property Catastrophe Excess of Loss
 Reinsurer: R+V Versicherung AG as brokered through Holborn Corporation.
 Scope: Property
 Retention: \$272,500,000 per occurrence
 Coverage: \$2,500,000 per occurrence, \$5,000,000 in aggregate
 Commissions: None
 Effective date: January 1, 2020
 Termination: January 1, 2021
 12. Type: Aggregate Catastrophe Excess of Loss
 Reinsurer: Various subscribing reinsurers as brokered through Holborn Corporation.

<u>Subscribing Reinsurer</u>	<u>Allocation</u>
Axis Reinsurance Company	2.07%
Convex Insurance UK Limited	6.66
Dual Commercial LLC	2.50
Employers Mutual Casualty Company	0.50
Hannover Rück SE	2.08
SCOR Reinsurance Company	2.07
Various Lloyd's Underwriters	<u>9.00</u>
Total Subscribing Reinsurers	<u>24.88%</u>

Scope: Property
 Retention: \$130,000,000 in aggregate
 Coverage: \$30,000,000 in aggregate
 Commissions: None
 Effective date: January 1, 2020
 Termination: January 1, 2021

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, 2019, 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.

Acuity, a Mutual Insurance Company
Assets
As of December 31, 2019

	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	\$2,421,018,426	\$	\$2,421,018,426
Stocks:			
Common stocks	1,313,206,121		1,313,206,121
Real estate:			
Occupied by the company	242,002,564		242,002,564
Properties held for sale	406,984		406,984
Cash, cash equivalents, and short-term investments	61,141,065		61,141,065
Receivables for securities	1,801,625		1,801,625
Investment income due and accrued	25,438,297		25,438,297
Premiums and considerations:			
Uncollected premiums and agents' balances in course of collection	64,459,864	10,597,162	53,862,702
Deferred premiums, agents' balances, and installments booked but deferred and not yet due	447,784,897	1,908,263	445,876,634
Reinsurance:			
Amounts recoverable from reinsurers	24,181,369		24,181,369
Current federal and foreign income tax recoverable and interest thereon	7,435,446		7,435,446
Guaranty funds receivable or on deposit	196,324		196,324
Electronic data processing equipment and software	11,498,224	8,113,468	3,384,756
Furniture and equipment, including health care delivery assets	21,120,437	21,120,437	
Receivable from parent, subsidiaries, and affiliates	37,571		37,571
Write-ins for other than invested assets:			
Prepaid expenses	12,173,899	12,173,899	
Security deposit	394,950	394,950	
Notes receivable	28,820	28,820	
	<u>\$4,654,326,883</u>	<u>\$54,336,999</u>	<u>\$4,599,989,884</u>
Total Assets	<u>\$4,654,326,883</u>	<u>\$54,336,999</u>	<u>\$4,599,989,884</u>

Acuity, a Mutual Insurance Company
Liabilities, Surplus, and Other Funds
As of December 31, 2019

Losses		\$1,090,798,490
Reinsurance payable on paid loss and loss adjustment expenses		13,761
Loss adjustment expenses		291,358,802
Commissions payable, contingent commissions, and other similar charges		45,075,113
Other expenses (excluding taxes, licenses, and fees)		119,546,908
Taxes, licenses, and fees (excluding federal and foreign income taxes)		11,704,663
Net deferred tax liability		10,364,408
Unearned premiums		774,719,635
Advance premium		11,472,239
Dividends declared and unpaid:		
Policyholders		6,265,000
Ceded reinsurance premiums payable (net of ceding commissions)		(107,417)
Amounts withheld or retained by company for account of others		3,527,510
Remittances and items not allocated		19,000
Payable for securities		<u>3,824,420</u>
Total Liabilities		2,368,582,532
Write-ins for special surplus funds:		
Undeclared dividends	\$ 18,271,000	
Guaranty fund	1,500,000	
Unassigned funds (surplus)	<u>2,211,636,352</u>	
Surplus as Regards Policyholders		<u>2,231,407,352</u>
Total Liabilities and Surplus		<u>\$4,599,989,884</u>

Acuity, a Mutual Insurance Company
Summary of Operations
For the Year 2019

Underwriting Income		
Premiums earned		\$1,519,608,914
Deductions:		
Losses incurred	\$803,029,399	
Loss adjustment expenses incurred	140,809,492	
Other underwriting expenses incurred	<u>505,899,310</u>	
Total underwriting deductions		<u>1,449,738,201</u>
Net underwriting gain (loss)		69,870,713
Investment Income		
Net investment income earned	145,337,521	
Net realized capital gains (losses)	<u>324,842</u>	
Net investment gain (loss)		145,662,363
Other Income		
Net gain (loss) from agents' or premium balances charged off	(2,984,099)	
Finance and service charges not included in premiums	4,485,583	
Write-ins for miscellaneous income:		
Other	<u>204,660</u>	
Total other income		<u>1,706,144</u>
Net income (loss) before dividends to policyholders and before federal and foreign income taxes		217,239,220
Dividends to policyholders		<u>17,272,343</u>
Net income (loss) after dividends to policyholders but before federal and foreign income taxes		199,966,877
Federal and foreign income taxes incurred		<u>31,680,117</u>
Net Income (Loss)		<u>\$ 168,286,760</u>

Acuity, a Mutual Insurance Company
Cash Flow
For the Year 2019

Premiums collected net of reinsurance		\$1,534,593,284
Net investment income		166,480,684
Miscellaneous income		<u>1,695,184</u>
Total		1,702,769,152
Benefit- and loss-related payments	\$764,577,556	
Commissions, expenses paid, and aggregate write-ins for deductions	617,835,547	
Dividends paid to policyholders	17,977,343	
Federal and foreign income taxes paid (recovered)	<u>39,042,330</u>	
Total deductions		<u>1,439,432,776</u>
Net cash from operations		263,336,376
Proceeds from investments sold, matured, or repaid:		
Bonds	\$460,287,557	
Stocks	129,443,013	
Net gains (losses) on cash, cash equivalents, and short-term investments	(10,551)	
Miscellaneous proceeds	<u>(1,790,987)</u>	
Total investment proceeds		587,929,032
Cost of investments acquired (long- term only):		
Bonds	589,334,625	
Stocks	250,867,456	
Real estate	4,442,255	
Miscellaneous applications	<u>(161,158)</u>	
Total investments acquired		<u>844,483,178</u>
Net cash from investments		(256,554,146)
Cash from financing and miscellaneous sources:		
Other cash provided (applied)	<u>2,003,353</u>	
Net cash from financing and miscellaneous sources		<u>2,003,353</u>
Reconciliation:		
Net Change in Cash, Cash Equivalents, and Short-Term Investments		
		8,785,583
Cash, cash equivalents, and short-term investments:		
Beginning of year		<u>52,355,482</u>
End of Year		<u>\$ 61,141,065</u>

Acuity, a Mutual Insurance Company
Compulsory and Security Surplus Calculation
December 31, 2019

Assets		\$4,599,989,884
Less liabilities		<u>2,368,582,532</u>
Adjusted surplus		2,231,407,352
Annual premium:		
Lines other than accident and health	\$1,570,029,886	
Factor	<u>20%</u>	
Compulsory surplus (subject to a minimum of \$2 million)		<u>314,005,977</u>
Compulsory Surplus Excess (Deficit)		<u>\$1,917,401,375</u>
Adjusted surplus (from above)		\$2,231,407,352
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%)		<u>345,406,574</u>
Security Surplus Excess (Deficit)		<u>\$1,886,000,778</u>

Acuity, a Mutual Insurance Company
Analysis of Surplus
For the Five-Year Period Ending December 31, 2019

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

	2019	2018	2017	2016	2015
Surplus, beginning of year	\$1,869,272	\$1,819,775	\$1,606,644	\$1,429,901	\$1,323,400
Net income	168,287	189,203	145,809	145,791	141,973
Change in net unrealized capital gains/losses	185,894	(140,058)	112,655	35,200	(41,196)
Change in net deferred income tax	6,924	4,139	(33,851)	1,836	10,998
Change in nonadmitted assets	377	(3,118)	(11,497)	(6,067)	(5,274)
Change in provision for reinsurance	<u>654</u>	<u>(670)</u>	<u>15</u>	<u>(16)</u>	<u>0</u>
Surplus, End of Year	<u>\$2,231,407</u>	<u>\$1,869,272</u>	<u>\$1,819,775</u>	<u>\$1,606,644</u>	<u>\$1,429,901</u>

Acuity, a Mutual Insurance Company
Insurance Regulatory Information System
For the Five-Year Period Ending December 31, 2019

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

Ratio	2019	2018	2017	2016	2015
#1 Gross Premium to Surplus	74%	83%	79%	86%	93%
#2 Net Premium to Surplus	71	79	76	82	89
#3 Change in Net Premiums Written	8	7	4	4	7
#4 Surplus Aid to Surplus	0	0	0	0	0
#5 Two-Year Overall Operating Ratio	85	85	86	85	86
#6 Investment Yield	3.9	4.1	3.5	3.1	3.8
#7 Gross Change in Surplus	19	3	13	12	8
#8 Change in Adjusted Surplus	19	3	13	12	8
#9 Liabilities to Liquid Assets	50	54	54	56	57
#10 Agents' Balances to Surplus	2	3	2	3	3
#11 One-Year Reserve Development to Surplus	-6	-6	-6	-4	-4
#12 Two-Year Reserve Development to Surplus	-11	-11	-8	-7	-8
#13 Estimated Current Reserve Deficiency to Surplus	-4	-6	-8	-6	-5

Growth of Acuity, a Mutual Insurance Company

Year	Admitted Assets	Liabilities	Surplus as Regards Policyholders	Net Income
2019	\$4,599,989,884	\$2,368,582,532	\$2,231,407,352	\$168,286,760
2018	4,088,425,914	2,219,153,931	1,869,271,983	189,203,291
2017	3,960,072,616	2,140,297,521	1,819,775,095	145,808,983
2016	3,621,327,936	2,014,684,258	1,606,643,678	145,790,516
2015	3,349,527,852	1,919,626,858	1,429,900,994	141,973,276
2014	3,100,956,368	1,777,556,672	1,323,399,696	113,215,398

Year	Gross Premium Written	Net Premium Written	Premium Earned	Loss and LAE Ratio	Expense Ratio	Combined Ratio
2019	\$1,657,975,418	\$1,582,348,699	\$1,519,608,914	62.1%	31.9%	94.0%
2018	1,542,179,888	1,467,712,991	1,417,681,793	60.8	31.3	92.1
2017	1,438,731,591	1,374,301,370	1,334,331,748	62.0	31.1	93.1
2016	1,376,334,520	1,316,281,763	1,289,358,989	61.3	30.1	91.4
2015	1,330,076,095	1,269,936,429	1,235,087,956	61.9	29.5	91.4
2014	1,242,974,878	1,189,179,922	1,140,263,899	65.1	27.7	92.8

During the period under examination, Acuity continued its steady growth. Admitted assets increased 48%, surplus increased 69%, and premiums earned increased 33%. The company's investment portfolio is well-diversified and managed conservatively to provide reasonable returns which limit exposures to risks. To achieve these goals, the company invests approximately 60% of its investment portfolio in high-quality bonds, 33% in common stocks, and the remainder in real estate and short-term investments. The increase in admitted assets and surplus was the result of growth in investment income and overall underwriting profitability of the company during the examination period.

VII. SUMMARY OF EXAMINATION RESULTS

Compliance with Prior Examination Report Recommendations

There were no specific comments and recommendations in the previous examination report.

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

There were no recommendations made by the previous examination. The current examination resulted in no recommendations. No adjustments were made to surplus as a result of the examination. The amount of surplus reported by the company as of December 31, 2019, is accepted.

During the period under examination, Acuity continued its steady growth. Admitted assets increased 48%, surplus increased 69%, and premiums earned increased 33%. The company's investment portfolio is well-diversified and managed conservatively to provide reasonable returns which limit exposures to risks. To achieve these goals, the company invests approximately 60% of its investment portfolio in high-quality bonds, 33% in common stocks, and the remainder in real estate and short-term investments. The increase in admitted assets and surplus was the result of growth in investment income and overall underwriting profitability of the company during the examination period.

There were no significant changes in the company's products since the previous examination. Growth in premiums is attributable to a combination of expansion in existing states, pricing increases, expansion into new states and maintaining retention of existing customers.

IX. SUMMARY OF COMMENTS AND RECOMMENDATIONS

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

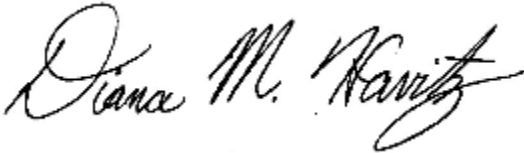
X. ACKNOWLEDGMENT

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
Shelly Bueno	Insurance Financial Examiner
Gabriel Gorske	Insurance Financial Examiner
Michael Miller	Insurance Financial Examiner
Ana Careaga	Data Specialist
Eleanor Lu, CISA	IT Specialist
Karl Albert, CFE	Quality Control 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 declared coronavirus disease (COVID-19) a pandemic. As of the date of this report, there is still significant uncertainty on the effect that the pandemic will have on the insurance industry, economy, and society at large. The examination's review of the impact to Acuity through November 2020 noted that there has not been a significant impact to Acuity overall; however, due to various uncertainties with the pandemic, it is unclear whether this will continue to have a minimal impact to Acuity or if it will escalate. The Office of the Commissioner of Insurance will continue to monitor how the pandemic might impact Acuity.