Report

of the

Examination of

All-Star Mutual Insurance Company

Stoughton, Wisconsin

As of December 31, 2011

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State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

Scott Walker, *Governor*
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May 23, 2012

Honorable Theodore K. Nickel
Commissioner of Insurance
State of Wisconsin
125 South Webster Street
Madison, Wisconsin 53703

Commissioner:

In accordance with your instructions, an examination has been performed as of December 31, 2011, of the affairs and financial condition of:

ALL-STAR MUTUAL INSURANCE COMPANY
Stoughton, Wisconsin

and the following report thereon is respectfully submitted:

I. INTRODUCTION

The previous examination of All-Star Mutual Insurance Company (the company) was made in 2008 as of December 31, 2007. The current examination covered the intervening time period ending December 31, 2011, and included a review of such subsequent transactions deemed essential to complete this examination.

The “Summary of Examination Results” contains elaboration on all areas of the company's operations. 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 with respect to the alternative or additional examination steps performed during the course of the examination.

In addition to auditing, the public accounting firm performs non-auditing services for the company, including taxes and preparation of the annual financial report. On January 20, 2011, an exemption was granted by the Commissioner, pursuant to s. Ins 50.08 (5), Wis. Adm. Code, permitting the independent auditor to perform this non-audit work for the company.

The company was organized as a town mutual insurance company on February 5, 1882, under the provisions of the then existing Wisconsin Statutes. The original name of the company was the Mazomanie & Black Earth Mutual Farmers Fire & Lightning Insurance Company. Subsequent amendments to the company's articles and bylaws changed the company's name to Mazomanie Mutual Insurance Company and, as described below, to that presently used.

Mazomanie Mutual Insurance Company merged with Blue Mounds Mutual Insurance Company on January 1, 1979. As a result of the merger the company amended its articles and bylaws including changing the company’s name to Mazomanie-Blue Mounds Mutual Insurance Company.

Effective January 1, 1996, Mazomanie-Blue Mounds Mutual Insurance Company merged with Albion Mutual Insurance Company. The merged companies were renamed to All-Star Mutual Insurance Company. Several amendments to the articles and bylaws were associated with the merger.

During the period under examination, there was one amendment to the articles of incorporation and no amendments to the bylaws. On February 28, 2011, the company requested to amend Article I of the Articles of Incorporation to state that the principal office for the transaction of business is located within the writing territory of the company.

The company is currently licensed to write property, including windstorm and hail, and nonproperty insurance. The company is currently licensed to write business in the following counties:

Adams	Jefferson
Columbia	Juneau
Crawford	Lafayette
Dane	Richland
Dodge	Rock
Grant	Sauk
Green	Vernon
Iowa	Walworth

A review was made of the policy and application forms currently used by the company. The company issues approved policies with or without endorsements for terms of one year with premiums payable on the advance premium basis. The company charges a policy fee of $15.00 annually. The company charges $2.00 for monthly premium billing and $5.00 for quarterly and semiannual billing fee. The company charges a $20.00 reinstatement fee.

Business of the company is acquired through 84 agents, 2 of whom are directors of the company. Agents are presently compensated for their services as follows:

Type of Policy	**Compensation**
All new and renewal policies	14%

Agents do not have the authority to adjust losses. The company employs an adjuster from Grinnell Mutual Reinsurance Company. The adjuster is paid $42,500 per year for up to 170 claims. The manager also adjusts losses and is only compensated with a travel allowance of $0.555/mile. Losses in excess of $40,000 are reviewed by the board of directors.

Policyholders may participate in the management and control of the company by attending and voting at all annual or special meetings of the members. No member may vote by proxy. The annual meeting of the company for the election of directors and special meetings of the company are held in accordance with its articles of incorporation.

Board of Directors

The board of directors consists of nine members divided into three classes. One class is elected at each annual meeting for a term of three years. Vacancies on the board may be filled by the directors for the interim to the next annual meeting when a director shall be chosen for the unexpired term.

The current board of directors consists of the following policyholders of the company:

Name	Principal Occupation	Residence	Expiry
Gary Hefty	Function Manager at Walgreens	Rogers, MN	2014
Mary Kittleson	Part-time All-Star Office Employee	Edgerton, WI	2013
Dave Volenberg*	Employee of Hydrite Chemical Company	Stoughton, WI	2013
Pat Farrell	Self-Employed Carpenter and Lawn Care/Snow Removal	Mt. Horeb, WI	2015
John Horton	Insurance Agent, Adjuster, and Inspector	Janesville, WI	2010
Jeffrey Meyer	Insurance Adjuster	Browntown, WI	2014
Duane Steinhauer	Retired	Madison, WI	2014
Cindy Ceranski*	Insurance Agent	Janesville, WI	2015
Steve Krattiger**	All-Star Manager	Brodhead, WI	2015

* Directors who are also agents are identified with an asterisk.
** Steve Krattiger retired as full-time manager as of May 4, 2012. He continues to work part-time as manager and remains a member of the board of directors.

Members of the board currently receive $100.00 for each half-day and $160.00 for each full-day meeting attended and $0.555/mile for travel expenses.

Section 612.13 (1m), Wis. Stat., requires:

(1) If a town mutual has fewer than nine directors, no more than one director may be an employee or representative of the town mutual; and

(2) Employees and representatives of a town mutual may not constitute a majority of its board.

The company is in compliance with these requirements.

Officers

Officers are elected by the board of directors from among its members and hold office for one year or until their successors are duly elected and qualified. Officers serving at the present time are as follows:

Name	Office	2011 Compensation
Gary Hefty	President	$3,625
Duane Steinhauer	Vice-President	1,000
Pat Farrell	Secretary/Treasurer	2,066

Reported compensation is the total compensation paid by the insurer for the year and includes salary, commissions, director fees and rental income as applicable.

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:

Adjusting Committee
Gary Hefty, Chair
John Horton
Patrick Farrell

Personnel Committee
Duane Steinhauer, Chair
Cindy Ceranski
Dave Volenberg

Investment Committee
Patrick Farrell, Chair
Jeffrey Meyer
Duane Steinhauer

Rate Committee
Jeffrey Meyer, Chair
John Horton
Steve Krattiger

Growth of Company

The growth of the company since the previous examination as compiled from its filed annual statements was as follows:

Year	Net Premiums Earned	Policies In Force	Net Income	Admitted Assets	Policyholders' Surplus
2011	$1,266,361	2,372	$ 100,398	$1,961,877	$ 964,727
2010	1,177,542	2,330	(190,530)	2,044,738	1,182,681
2009	1,136,056	2,231	(28,295)	2,106,790	1,055,918
2008	1,150,303	2,223	70,780	2,118,657	1,036,830
2007	1,167,990	2,267	138,777	2,306,383	1,295,564

The ratios of gross and net premiums written to surplus as regards policyholders since the previous examination were as follows:

Year	Gross Premiums Written	Net Premiums Written	Policyholders' Surplus	Writings Ratios Net	Writings Ratios Gross
2011	$1,862,963	$1,294,847	$ 964,727	134%	193%
2010	1,777,395	1,191,626	862,057	101	150
2009	1,754,176	1,149,882	1,050,918	109	166
2008	1,766,176	1,143,591	1,081,827	110	170
2007	1,815,780	1,182,414	1,010,819	91	140

For the same period, the company's operating ratios were as follows:

Year	Net Losses and LAE Incurred	Other Underwriting Expenses Incurred	Net Premiums Earned	Loss Ratio	Expense Ratio	Com-posite Ratio
2011	$ 751,414	$497,803	$1,266,361	59%	38%	98%
2010	1,007,621	453,011	1,177,542	86	38	124
2009	833,397	442,131	1,136,056	73	38	112
2008	750,443	446,789	1,150,303	65	39	104
2007	608,961	425,563	1,167,990	52	36	88

The company reported an increase in surplus at year-end 2011; surplus decreased in 2010 and 2009 due to underwriting losses. The 2011 increase was due to net income of $100,398 and net underwriting gain of $17,144. The company reported net loss in 2010 and 2009 due to increased losses incurred and retention of risk.

The premium volume relative to surplus is above average for a town mutual insurer and has been for several years. Since the prior examination, both gross and net premiums written have increased by 4% and 10%, respectively. Policies in force have increased 1% since that last exam. Rate increases have contributed to the increases in gross and net written premiums noted above.

II. REINSURANCE

The examiners' review of the company's reinsurance portfolio revealed there is currently one ceding treaty. The treaty contained a proper insolvency clause and complied with s. Ins 13.09 (3), Wis. Adm. Code, concerning maximum wind loss. Maximum risk retentions complied with s. Ins 13.06, Wis. Adm. Code.

Reinsurer:	Grinnell Mutual Reinsurance Company
Effective date:	January 1, 2011
Termination provisions:	December 31, 2011, or any subsequent December 31, by either party providing at least 90 days' advance written notice

The coverages provided under this treaty are summarized as follows:

1.	Individual occurrence of loss:	Quota Share
	Lines reinsured:	Property
	Company's retention:	70% Quota Share
	Coverage:	30% quota share of each individual occurrence loss. The maximum coverage for livestock, commercial and public property, and dwellings are $1,000,000 per occurrence. The maximum coverage for farm equipment storage outbuildings and farm machinery is $2,000,000 per occurrence.
	Reinsurance premium:	30% of premiums charged
2.	Aggregate excess reinsurance sections:	
	Lines reinsured:	Property
	Company's retention:	Annual net losses limited to the defined retention limit of $686,976 for 2012; however, in no event shall the liability of the reinsured exceed the amount allowed by s. Ins 13.09, Wis. Adm. Code
	Coverage:	100% of amounts exceeding the annual retention limit
	Reinsurance premium:	10% of premiums charged
3.	Facultative reinsurance section:	
	Lines reinsured and coverage provided:	These terms are determined on a per-risk basis with limits set forth in the contract
4.	Liability section:	
	Lines reinsured:	Personal Liability

Company’s retention:	$2,000
Coverage:	100% in excess of the company’s per claim retention
Reinsurance premium:	100% of premiums charged
Ceding commission:	20% of ceded premium
Contingent commission:	5-30% considering net premiums written and net underwriting profits realized by the reinsurer

III. FINANCIAL DATA

The following financial statements reflect the financial condition of the company as reported to the Commissioner of Insurance in the December 31, 2011, annual statement. Adjustments made as a result of the examination are noted at the end of this section in the area captioned "Reconciliation of Policyholders' Surplus."

All-Star Mutual Insurance Company
Statement of Assets and Liabilities
As of December 31, 2011

Assets	Ledger	Nonledger	Not Admitted	Net Admitted
Cash on hand	$ 105	$	$	$ 105
Cash in checking	246,761			246,761
Cash deposited at interest	1,404,686			1,404,686
Stocks and mutual fund investments	13,222			13,222
Premiums, agents' balances and installments:				
In course of collection	14,794			14,794
Deferred and not yet due	246,564			246,564
Investment income accrued		9,105		9,105
Reinsurance recoverable on paid losses and LAE	17,079			17,079
Electronic data processing equipment	9,561			9,561
Totals	$1,952,772	$9,105	$0	$1,961,877

Liabilities and Surplus

Net unpaid losses	$ 12,500
Commissions payable	33,672
Fire department dues payable	714
Unearned premiums	792,167
Reinsurance payable	78,195
Amounts withheld for the account of others	3,850
Other liabilities:	
Expense-related:	
Accounts payable	11,948
Accrued salaries and wages	11,503
Nonexpense-related:	
Premiums received in advance	52,601
Total liabilities	997,150
Policyholders' surplus	964,727
Total Liabilities and Surplus	$1,961,877

All-Star Mutual Insurance Company
Statement of Operations
For the Year 2011

Net premiums and assessments earned		$1,266,361
Deduct:		
Net losses incurred	$677,342	
Net loss adjustment expenses incurred	74,072	
Net other underwriting expenses incurred	497,803	
Total losses and expenses incurred		1,249,217
Net underwriting gain (loss)		17,144
Net investment income:		
Net investment income earned	32,583	
Net realized capital gains (losses)	2,840	
Total investment gain (loss)		35,423
Other income (expense):		
Miscellaneous income		47,831
Net Income (Loss)		$ 100,398

All-Star Mutual Insurance Company
Reconciliation and Analysis of Surplus as Regards Policyholders
For the Four-Year Period Ending December 31, 2011

The following schedule is a reconciliation of surplus as regards policyholders during the period under examination as reported by the company in its filed annual statements:

	2011	2010	2009	2008	2007
Surplus, beginning of year	$862,057	$1,050,872	$1,081,827	$1,010,819	$ 870,677
Net income	100,398	(190,530)	(28,295)	70,780	138,777
Net unrealized capital gain or (loss)	2,272	(316)	(811)	(133)	990
Change in nonadmitted assets		2,031	(1,849)	361	375
Surplus, End of Year	$964,727	$ 862,057	$1,050,872	$1,081.827	$1,010,819

Reconciliation of Policyholders' Surplus

The examination resulted in no adjustments to policyholders' surplus. The amount reported by the company as of December 31, 2011, is accepted.

IV. SUMMARY OF EXAMINATION RESULTS

Compliance with Prior Examination Report Recommendations

The prior examination resulted in no adverse comments or recommendations.

Current Examination Results

Corporate Records

The minutes of the annual meetings of policyholders and meetings of the board of directors and committees thereof were reviewed for the period under examination and also for the subsequent period.

Biographical data relating to company officers and directors have been reported in accordance with the provisions of s. Ins 6.52, Wis. Adm. Code.

The company has executed formal written agreements with its agents. The contracts include language indicating the agent will represent the company's interests "in good faith."

Conflict of Interest

In accordance with a directive of the Commissioner of Insurance, each company is required to establish a procedure for the disclosure to its board of directors of any material interest or affiliation on the part of its officers, directors, or key employees which conflicts or is likely to conflict with the official duties of such person. A part of this procedure is the annual completion of a conflict of interest questionnaire by the appropriate persons. The company has adopted such a procedure for disclosing potential conflicts of interest. Conflict of interest questionnaires were reviewed for the period under examination with no apparent conflicts being noted.

Fidelity Bond and Other Insurance

The company is afforded coverage under the terms of the following bonds or contracts and has complied with s. Ins 13.05 (6), Wis. Adm. Code, which sets forth the minimum requirements for fidelity bond coverage:

Type of Coverage	Coverage Limits
Fidelity bond	$ 500,000
Worker's compensation:	
Employee injury	Statutory
Employee liability:	
Each accident	500,000
Each employee	500,000
Policy limit	500,000
Profession liability	1,000,000
Property	100,000

Underwriting

The company has a written underwriting guide. The guide covers all the lines of business that the company is presently writing.

The company has a formal inspection procedure for both new and renewal business. A sampling of new applications and renewal business is inspected by committee members who are independent of the risk under consideration and review.

During the review of the policyholder files, it was noted that in some of the policy files the policy application did not have a signature from the policyholder on it. It is recommended that all policy applications are signed by the policyholder.

Claims Adjusting

The company has an adjusting committee consisting of at least three directors as required by s. 612.13 (4), Wis. Stat. The function of this committee is to adjust or supervise the adjustment of losses.

Accounts and Records

The examiners' review of the company's records indicated that the company is in compliance with s. Ins 13.05, Wis. Adm. Code, which sets forth the minimum standards for the handling of cash and recording of cash transactions by town mutual insurance companies. The examiners noted the following:

1. A proper policy register is maintained.
2. A proper cash receipts journal is maintained.
3. A proper cash disbursements journal is maintained.
4. A proper general journal is maintained.
5. A proper general ledger is maintained.

An extensive review was made of income and disbursement items. Cash receipts were traced from source records and the proper recording and eventual deposit thereof ascertained. Negotiated checks issued during the period under examination were reviewed, test checked for proper endorsement, and traced to cash records. The verification of assets and determination of liabilities were made as of December 31, 2011.

The company is audited annually by an outside public accounting firm.

EDP Environment

Company personnel were interviewed with respect to the company's electronic data processing environment. Access to the computer is limited to people authorized to use the computers. Company personnel back up the computers daily and the backed-up data is kept off-site.

The company has manuals documenting the use of its software and outlining the steps to complete specific tasks. The manuals assist in the continuity of operations by providing instructions for seldom-used applications or when staff turnover occurs.

Business Continuity Plan

A business continuity plan identifies steps to be performed by a company in the event of business interruptions including, but not limited to, the inability to access its computer, the loss of information on its computer, the loss of a key employee, or the destruction of its office building. The company has developed a business continuity plan. The company's business continuity plan appears to be adequate.

Invested Assets

Section 610.23, Wis. Stat., requires insurers to hold all investments and deposits of its funds in its own name except that:

(1) Securities kept under a custodial agreement or trust arrangement with a bank or banking and trust company may be issued in the name of a nominee of the bank or banking and trust company; and

(2) Any insurer may acquire and hold securities in bearer form.

For securities not held under a custodial agreement or trust arrangement with a bank or banking and trust company, s. Ins 13.05 (4), Wis. Adm. Code, requires that:

> Non-negotiable evidences of company investments such as registered bonds, certificates of deposits, notes, etc., shall be maintained in a safe or vault with adequate safety controls or in a safety deposit box in a bank. Negotiable evidences of company investments shall be maintained in a safety deposit box in a bank. Access to a company safety deposit box containing negotiable securities shall require the presence and signature of at least 2 officers, directors or employees of the company.

The company is in compliance with these requirements.

Investment Rule Compliance

The investment rule for town mutual insurers allows a company to invest in common stocks, common stock mutual funds, and other higher risk investments (referred to as "Type 2") provided that the town mutual has a sufficient amount of lower risk investments (referred to as "Type 1"). A town mutual may invest in Type 2 securities only if it already has sufficient Type 1 investments. Type 1 investments must equal or exceed the greater of items 1, 2, or 3.

1.	Liabilities plus $300,000	$1,297,150
2.	Liabilities plus 33% of gross premiums written	1,611,928
3.	Liabilities plus 50% of net premiums written	1,644,574
4.	Amount required (greater of 1, 2, or 3)	1,644,574
5.	Amount of Type 1 investments as of 12/31/2011	1,651,447
6.	Excess or (deficiency)	$ 6,874

The company has sufficient Type 1 investments.

ASSETS

Cash and Invested Cash **$1,651,552**

The above asset is comprised of the following types of cash items:

Cash in company's office	$ 105
Cash deposited in banks—checking accounts	246,761
Cash deposited in banks at interest	1,404,686
Total	$1,651,552

Cash in company's office at year-end represents the company's petty cash fund. A physical count was made by the examiners during the course of the examination and the balance reconciled to year-end.

Cash deposited in banks subject to the company's check and withdrawal consists of one account maintained in one bank. Verification of checking account balances was made by obtaining confirmations directly from the depository and reconciling the amounts shown thereon to company records.

Cash deposited in banks represents the aggregate of one deposit in one depository. Deposits were verified by direct correspondence with the respective depositories and by an actual count and inspection of certificates and/or passbooks. Interest received during the year 2011 totaled $40,159 and was verified to company cash records. Rates of interest earned on cash deposits ranged from 1.99% to 3.60%. Accrued interest on cash deposits totaled $9,105 at year-end.

Stocks and Mutual Fund Investments **$13,222**

The above asset consists of the aggregate market value of stocks and mutual funds held by the company as of December 31, 2011. The certificate for the Class B NAMIC Insurance Company common stock owned by the company is located in the office. Stock certificates were physically examined by the examiners.

Premiums, Agents' Balances in Course of Collection **$14,794**

This asset represents the amounts due from agents or policyholders which are not in excess of 90 days past due at year-end. A review of detailed premium records verified the accuracy of this asset.

Premiums Deferred and Not Yet Due **$246,564**

This asset represents modal premium installments (such as monthly, quarterly, etc.) that are not yet due. A review of a sample from the company's detailed list of deferred premiums verified the accuracy of this asset.

Investment Income Accrued **$9,105**

Interest due and accrued on the various assets of the company at December 31, 2011, consists of the following:

Cash at interest	$9,105
Total	$9,105

Reinsurance Recoverable on Paid Losses and LAE **$17,079**

The above asset represents recoveries due to the company from reinsurance on losses and loss adjusting expenses which were paid on or prior to December 31, 2011. A review of year-end accountings with the reinsurer verified the above asset.

The company reported reinsurance recoverables for the first time in at least five years due to the company revising their reinsurance contract to reduce the company's retention level to $640,145 for the 2011 aggregate excess reinsurance section of their reinsurance contract. In the prior two years the company experienced direct losses paid of $843,388 and $810,753, while in 2011 the company experienced $1,767,107 in direct losses paid. The decrease in retention significantly improved the overall effect on the company's net income and underwriting income.

Electronic Data Processing Equipment **$9,561**

The above balance consists of computer hardware and operating system software, net of depreciation as of December 31, 2011. A review of receipts and other documentation verified the balance. Non-operating system software was properly nonadmitted.

LIABILITIES AND SURPLUS

Net Unpaid Losses **$12,500**

This liability represents losses incurred on or prior to December 31, 2011, that remained unpaid as of that date. The examiners reviewed the reasonableness of this liability by totaling actual loss payments made subsequent to December 31, 2011, with incurred dates in 2011 and prior years. The examiners' development of unpaid losses is compared with the amount estimated by the company in the following schedule.

	Company Estimate	Examiners' Development	Difference
Incurred but unpaid losses	$398,350	$326,262	$72,088
Less: Reinsurance recoverable on unpaid losses	385,850	316,762	69,088
Net Unpaid Losses	$ 12,500	$ 9,500	$ 3,000

The above difference of $3,000 was not considered material for purposes of this examination.

The examiners' review of claim files included open claims, paid claims, claims closed without payment, and claims that were denied during the examination period. The review indicated that claims are investigated and evaluated properly and that payments are made promptly and in accordance with policy provisions upon the submission of a proper proof of loss. In addition, the review of claims handling procedures and files revealed the following:

1. A proper loss register is maintained.
2. Claim files contained sufficient investigatory data and documentation to verify settlement payments or reserve estimates.
3. Proofs of loss were properly signed.

Unpaid Loss Adjustment Expenses **$0**

This liability represents the company's estimate of amounts necessary to settle losses which were incurred prior to December 31, 2011. In recent years, loss adjustment was among the responsibilities for which the company’s manager was paid a salary, and therefore, no unpaid loss adjustment expense was accrued for in 2011. Since the manager has retired, the company has entered into an agreement with Grinnell Advisory Company to handle the loss adjusting for the company. It is suggested that the company should record a liability for unpaid loss adjustment expenses going forward, when applicable.

Commissions Payable **$33,672**

This liability represents the commissions payable to agents as of December 31, 2011. The examiners reviewed the company's commission calculation and found the liability to be reasonably stated.

Fire Department Dues Payable **$714**

This liability represents the fire department dues payable to the State of Wisconsin as of December 31, 2011.

The examiners reviewed the company's fire department dues calculation and found this liability to be correctly calculated. The actual amount paid was verified to the cash disbursement records.

Unearned Premiums **$792,167**

This liability represents the reserve established for unearned premiums in compliance with s. Ins 13.08 (3), Wis. Adm. Code. This reserve was established using a daily pro rata methodology.

Reinsurance Payable **$78,195**

This liability consists of amounts due to the company's reinsurer at December 31, 2011, relating to transactions which occurred on or prior to that date.

Amounts Withheld for the Account of Others **$3,850**

This liability represents employee payroll deductions in the possession of the company at December 31, 2011. Supporting records and subsequent cash disbursements verified this item.

Accounts Payable **$11,948**

A review of the company's documentation noted the reported amount was an estimated accrual for an employee pension plan. Supporting records and subsequent cash disbursements verified the pension accrual as fairly stated.

Accrued Salaries and Wages **$11,503**

This liability represents the balance payable at year-end for salaries and wages incurred prior to December 31, 2011. The examiners reviewed the company's 2011 payroll records and cash disbursement records to verify the accuracy of this liability.

Premiums Received in Advance **$52,601**

This liability represents the total premiums received prior to year-end for policies with effective dates after December 31, 2011. The examiners reviewed 2011 premium and cash receipt records to verify the accuracy of this liability.

V. CONCLUSION

All-Star Mutual Insurance Company is a town mutual insurer with an authorized territory of 16 counties. The company has been in business since 1882 providing property and liability insurance to its policyholders.

The company reported assets of $1,961,877, liabilities of $997,150 and policyholders' surplus of $964,727 at year-end 2011. The company reported net income of $100,398 and underwriting gains of $17,144. During the years of 2010 and 2009, the company reported underwriting losses of $(283,090) and $(139,472), respectively. Additionally, during those two years, the company reported net loss of $(190,530) and $(28,295). In 2011, the company amended its reinsurance contract to reduce its retention level. This decision to amend their contract significantly improved the 2011 financial results, even with the increased storm losses in the company's market area.

There was no adjustment made to surplus as a result of this examination. The prior examination of the company resulted in no recommendations. The current examination resulted in one recommendation and one suggestion.

VI. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 15 - Underwriting—It is recommended that all policy applications are signed by the policyholder.

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2. Page 21 - Unpaid Loss Adjustment Expense—It is suggested that the company should record a liability for unpaid loss adjustment expenses going forward, when applicable.

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VII. ACKNOWLEDGMENT

The courteous cooperation extended to the examiners by the company's personnel is hereby acknowledged.

In addition to the undersigned, James Lindell of the Office of the Commissioner of Insurance, State of Wisconsin, participated in the examination.

Respectfully submitted,

Judith Michael
Examiner-in-Charge