

Report
of the
Examination of
Badger Mutual Insurance Company
Milwaukee, Wisconsin
As of December 31, 2017

TABLE OF CONTENTS

	Page
I. INTRODUCTION.....	1
II. HISTORY AND PLAN OF OPERATION.....	3
III. MANAGEMENT AND CONTROL.....	5
IV. REINSURANCE.....	7
V. FINANCIAL DATA.....	16
VI. CONCLUSION.....	28
VII. SUMMARY OF COMMENTS AND RECOMMENDATIONS.....	29
VIII. ACKNOWLEDGMENT.....	30



State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

Scott Walker, Governor
Theodore K. Nickel, Commissioner

Wisconsin.gov

September 27, 2018

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Honorable Theodore K. Nickel
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:

BADGER MUTUAL INSURANCE COMPANY
Milwaukee, Wisconsin

and this report is respectfully submitted.

I. INTRODUCTION

The previous examination of Badger Mutual Insurance Company (the company) was conducted in 2013 as of December 31, 2012. The current examination covered the intervening period ending December 31, 2017, and included a review of such 2018 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 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 with respect to the alternative or additional examination steps performed during the course of the examination.

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 organized in 1887 as Der Deutsche Gegenseitige Feuer Unterstuetzungs Verein (The German Mutual Fire Insurance Society). It was founded by a group of Lutherans interested in acquiring affordable property damage coverage for their churches after many insurance companies introduced restrictions and high rates for some types of property coverage as a result of the great Chicago fire that occurred in 1881. The company was incorporated in Wisconsin on June 6, 1891, as Badger Mutual Fire Insurance Company. The present name, Badger Mutual Insurance Company, was adopted in 1948.

In 2017, the company wrote direct premium in the following states:

Wisconsin	\$ 46,695,587	45.1%
Illinois	23,921,194	23.1
Arizona	8,695,632	8.4
Minnesota	8,655,032	8.4
Nevada	5,612,204	5.4
All others	<u>9,855,404</u>	<u>9.6</u>
Total	<u>\$103,435,053</u>	<u>100.0%</u>

The company is licensed in Arizona, Idaho, Illinois, Iowa, Michigan, Minnesota, Nevada, Utah, Wisconsin, and Wyoming. The major products marketed by the company include homeowner's and commercial multiple peril, private passenger auto liability and auto physical damage, fire, and allied lines. The major products are marketed through 395 independent agencies with 3,958 licensed agents.

The following table is a summary of the net insurance premiums written by the company in 2017. 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	\$ 1,677,798	\$ 0	\$ 161,414	\$ 1,516,384
Allied lines	730,428	0	68,107	662,321
Homeowners multiple peril	34,703,101	0	5,140,963	29,562,138
Commercial multiple peril	31,324,505	0	9,698,759	21,625,746
Inland marine	125	0	11	114
Workers’ compensation	3,211,811	0	424,262	2,787,549
Other liability – occurrence	134,545	0	96	134,449
Private passenger auto liability	18,863,439	0	154,355	18,709,084
Auto physical damage	12,789,302	0	498,112	12,291,190
Reinsurance – non-proportional assumed property	0	212,263	59,434	152,829
Reinsurance – non-proportional assumed liability	<u>0</u>	<u>79,571</u>	<u>0</u>	<u>79,571</u>
Total All Lines	<u>\$103,435,053</u>	<u>\$291,834</u>	<u>\$16,205,513</u>	<u>\$87,521,374</u>

III. MANAGEMENT AND CONTROL

Board of Directors

The board of directors consists of nine members. Directors are elected annually to serve a three-year term. Officers are elected at the board's annual meeting. The board members currently receive a \$16,000 annual retainer and \$1,750 per meeting. Members of the Audit and Finance Committees receive \$500 for each meeting they attend, while Compensation Committee members receive \$1,500 annually. All directors are reimbursed for their travel expenses incurred while serving on the board.

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

Name and Residence	Principal Occupation	Term Expires
Santino Cicero River Hills, Wisconsin	Chairman of the Board Retired	2021
Doralice Graff Cedarburg, Wisconsin	Retired	2019
Scott Henkel Waukesha, Wisconsin	Certified Public Accountant Chortek LLP	2021
David Kane Milwaukee, Wisconsin	Chief Executive Officer and President Badger Mutual Insurance Company	2020
Steven Klima Oconomowoc, Wisconsin	Retired	2019
John Linscott Thiensville, Wisconsin	Physician Lakeshore Medical Clinics, Ltd.	2020
Vincent Lyles Milwaukee, Wisconsin	President and Chief Executive Officer Boys & Girls Clubs of Greater Milwaukee	2019
Daniel Nigro* Milwaukee, Wisconsin	Executive Vice President & Secretary Badger Mutual Insurance Company	2019
Stephen Streff Red Wing, Minnesota	Actuarial Consulting Streff Insurance Services Corp.	2021
Stuart Warrington Bonita Springs, Florida	Retired	2020

*New in 2018

Officers of the Company

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

Name	Office	2017 Compensation
David Kane	President and Chief Executive Officer	\$487,550
Darrin Groendal	Chief Financial Officer Vice President and Treasurer	282,458
Daniel Nigro	Executive Vice President and Secretary	268,977
Kathy Bubeck	Vice President of Claims	205,742
Brian Wiza	Vice President of Underwriting	173,890
Andrew Thiede	Manager of Information Technology	190,641
Sean Costello	Director of Marketing	117,811
Laura Michna	Assistant Vice President of Administration	109,218

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:

Finance Committee

Santino Cicero, Chair
Vincent Lyles
John Linscott
Stuart Warrington
David Kane

Audit Committee

Steven Klima, Chair
Doralice Graff
Scott Henkel
Stephen Streff

Compensation Committee

Santino Cicero, Chair
Doralice Graff
Scott Henkel
Steven Klima
John Linscott
Vincent Lyles
Stephen Streff
Stuart Warrington

IV. REINSURANCE

The company's reinsurance portfolio and strategy is 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.

Reinsurance is sought to mitigate risks in all of the company's lines of business, as well as provide surplus protection. Reinsurance contracts are negotiated through a reinsurance broker, Guy Carpenter. The broker does not have the authority to accept, bind, or manage reinsurance on behalf of the company. Reinsurance contracts are presented to the board at the January board meeting. The largest net amount insured in any single risk is \$350,000 for casualty and \$350,000 for property. Workers' compensation reinsurance is \$12,000,000 excess of \$1,000,000. Total catastrophe reinsurance is \$40,000,000 excess of \$3,000,000, with a catastrophe aggregate contract for \$4,000,000 excess of \$5,000,000 and \$500,000 per event deductible. 100% quota share treaties are maintained in the amounts of \$1,000,000 for employment practices liability and \$100,000 for cybersecurity liability. Losses in excess of retention are covered by excess treaties that are placed with various reinsurance companies by the reinsurance intermediary.

Nonaffiliated Ceding Contracts

1. Type:	Equipment Breakdown Coverage
Reinsurer:	The Hartford Steam Boiler Inspection and Insurance Company
Scope:	Equipment breakdown liability under commercial package policies
Coverage:	100% of the equipment breakdown liability subject to a limit of \$25,000,000 for any one accident
Premium:	5.4% of the company's subject earned premium income during the period of January 1 through December 31, 2017
Commissions:	Ceding commission of 30% of reinsurance premium ceded Profit-sharing commission calculated as 50% of the amount by which the actual loss ratio is under 32%, adjusted for the loss carry forward, if any, for the immediately preceding accounting period
Effective date:	January 1, 2001

Termination: Continue in force until terminated by either party giving the other six months' prior notice in writing

2. Type: Employment Practices Liability Coverage

Reinsurer: The Hartford Steam Boiler Inspection and Insurance Company

Scope: Employment Practices Liability of the Company under its Commercial Package policies

Coverage: 100% of employment practices liability subject to a limit of \$1,000,000 for each wrongful employment act and subject to an annual aggregate limit not to exceed \$1,000,000

Premium: The Company shall pay to the Reinsurer a reinsurance premium calculated in accordance with the rates issued by the Reinsurer and accepted by the Company

Commissions: Ceding commission of 30% of reinsurance premium ceded

Effective date: March 1, 2017

Termination: Continue in force until terminated by either party giving the other 180 days prior notice in writing

3. Type: Cyber Liability Coverage

Reinsurer: As of January 1, 2017, participation was as follows:

KLN Tokio Marine Kiln*	26.67%
HCC Tokio Marine HCC*	20.00
TMK Tokio Marine Kiln*	<u>53.33</u>
Total Placement	<u>100.00%</u>

**Indicates Lloyds syndicates*

Scope: Cyber liability coverage as a result of claims made under Cyber Liability Endorsements attached to policies written by or on behalf of the Company.

Coverage: 100% of cyber liability subject to a limit of \$100,000 in the aggregate, any one endorsement

Premium: The Company shall cede to the Reinsurer its exact proportion of the Gross Net Written Premium Income collected by the Company. The Gross Net Written Premium Income for each Cyber Liability Endorsement shall be \$67 for each Cyber Liability Endorsement with a \$50,000 limit, and \$100 for each Cyber Liability Endorsement with a \$100,000 limit.

Commissions: Ceding commission of 30% of reinsurance premium ceded

Effective date: January 1, 2017, to January 1, 2018

Intermediary: Guy Carpenter

Termination:	At expiration of the Contract, or termination as provided for in the Special Termination Article.	
4. Type:	Multiple Line Excess of Loss Reinsurance First Layer	
Reinsurer:	<u>Domestic Placement</u>	
	American Agricultural Insurance Company	2.50%
	Aspen Re America Inc. o/b/o Aspen Ins (UK)	10.00
	Regional Treaty Services Facility	30.00
	Renaissance Re U.S. Inc.	27.50
	Swiss Re America Corp.	<u>15.00</u>
		85.00
	<u>European Placement</u>	
	Hannover Ruck SE	<u>15.00</u>
	<u>Total Placement</u>	<u>100.00%</u>
Scope:	Property and Casualty, including Umbrella, and, as respects the First Layer, Workers' Compensation	
Retention:	\$350,000 each and every risk	
Coverage:	<u>Property</u> —\$650,000 each and every risk, limited to \$1,950,000 any one loss occurrence and \$2,600,000 in annual aggregate in respect of acts of terrorism	
	<u>Casualty</u> —\$650,000 each and every loss occurrence, limited to an aggregate of \$1,950,000 in respect of acts of terrorism	
	<u>Property and Casualty</u> —One \$350,000 retention in the event of an occurrence involving both Property and Casualty	
Reinstatement:	Free and unlimited, subject to terrorism aggregate	
Premium:	Annual deposit premium of \$3,300,000 payable in quarterly installments of \$825,000 and adjusted annually at a net rate of 3.829% of gross net earned premium (GNEPI) income with an annual minimum premium of \$2,640,000	
Commissions:	30% ceding commission	
	Profit-sharing commission calculated as 30% of the amount by which reinsurers' income exceeds reinsurers' outgo.	
Effective date:	January 1, 2017, to January 1, 2018	
Intermediary:	Guy Carpenter	
Termination:	Under any part of Article 5 – Special Termination of the contract upon giving a notice in writing	
5. Type:	Multiple Line Excess of Loss Reinsurance Second Layer	
Reinsurer:	<u>Domestic Placement</u>	
	American Agricultural Insurance Company	2.50%
	Aspen Re America Inc. o/b/o Aspen Ins (UK)	12.50
	Regional Treaty Services Facility	32.50

Renaissance Re U.S. Inc.	22.50
Swiss Re America Corp.	<u>15.00</u>
	85.00
<u>European Placement</u>	
Hannover Ruck SE	<u>15.00</u>
<u>Total Placement</u>	<u>100.00%</u>

- Scope: Property, casualty, personal umbrella and commercial umbrella
- Retention: \$1,000,000 each and every risk
- Coverage: Property—\$6,000,000 each and every risk, limited to \$12,000,000 any one loss occurrence and \$12,000,000 in the aggregate in respect of acts of terrorism
- Casualty—\$6,000,000 each and every loss occurrence limited to an aggregate of \$12,000,000 in respect of acts of terrorism
- Reinstatement: Five free reinstatements, subject to terrorism aggregate
- Premium: Annual deposit premium of \$1,225,000 payable in quarterly installments of \$306,250, adjusted annually at a gross rate of 1.479% GNEPI and subject to an annual minimum premium of \$980,000
- Commissions: 30%
- Effective date: January 1, 2017, to January 1, 2018
- Termination: Under any part of Article 5 – Special Termination of the contract upon giving a notice in writing
6. Type: Workers' Compensation Excess of Loss Reinsurance
- Reinsurer: Safety National Casualty Corporation
- Scope: Workers' compensation and Employers Liability
- Retention: \$1,000,000 ultimate net loss each and every occurrence
- Coverage: \$12,000,000 ultimate net loss each and every occurrence subject to not more than \$48,000,000 aggregate ultimate net loss
- Reinstatement: Three free
- Premium: Annual deposit of \$239,600 payable in quarterly installments of \$59,900 and adjusted annually at 7.101% of the subject earned premium, subject to minimum premium of \$200,000
- Effective date: January 1, 2017, to January 1, 2018
- Termination: Under any part of Article 5 – Special Termination of the contract upon giving 30 days' notice in writing
7. Type: Casualty Clash Reinsurance Contract

Reinsurer:	<u>Domestic Placement</u>	
	Arch Reinsurance Company	20.00%
	Aspen Re America Inc.	10.00
	Renaissance Reinsurance U.S. Inc.	<u>12.50</u>
		42.50
	<u>European Placement</u>	
	Lloyd's Underwriting Syndicate No. 0435 FDY	25.00
	Lloyd's Underwriting Syndicate No. 0609 AUW	<u>32.50</u>
		57.50
	<u>Total Placement</u>	<u>100.00%</u>
Scope:	Casualty, commercial umbrella, and personal umbrella	
Retention:	\$7,000,000 per occurrence	
Coverage:	\$3,000,000 per loss occurrence, subject to annual aggregate limit of \$6,000,000 for all loss occurrences and \$6,000,000 in the aggregate in respect of acts of terrorism	
Reinstatement:	One at 100%	
Premium:	Annual deposit premium of \$54,000 payable in quarterly installments of \$13,500 and adjusted annually at 0.1543% of the subject earned premium, subject to minimum premium of \$43,200	
Effective date:	January 1, 2017, to January 1, 2018	
Intermediary:	Guy Carpenter	
Termination:	Under any part of Article 4 – Special Termination of the contract upon giving a notice in writing	
8. Type:	First Layer Property Catastrophe Excess of Loss	
Reinsurer:	<u>Domestic Placement</u>	
	Allied World Reinsurance Company	8.5%
	American Agricultural Insurance Company*	2.0
	American Agricultural Insurance Company**	2.0
	Dual Corporate Risks UK o/b/o National Union Fire*	5.0
	Employers Mutual Casualty Company*	1.5
	Employers Mutual Casualty Company**	1.5
	Farm Mutual Reinsurance Plan Inc.	12.5
	Farm Mutual Reinsurance Plan Inc. **	6.5
	Regional Treaty Services Facility*	5.0
	Shelter Reinsurance Company	8.0
	Swiss Re America Corp. **	<u>10.0</u>
		62.5
	<u>European Placement</u>	
	Hannover Ruck SE	7.5
	Mapfre Re, Compania de Reaseguros S.A.*	10.0
	Mapfre Re, Compania de Reaseguros S.A. **	<u>10.0</u>
		27.5
	<u>Guy Carpenter London Placement</u>	
	General Insurance Corporation of India	<u>10.0</u>

	<u>Total Placement</u>	<u>100.0%</u>
Scope:	Property including automobile physical damage	
Retention:	\$3,000,000 each loss occurrence, subject to annual aggregate limit of \$16,000,000 for all loss occurrences	
Coverage:	\$8,000,000 each loss occurrence	
Reinstatement:	One reinstatement at 100% with respect to time and pro rata as respects amount	
Premium:	Annual deposit premium of \$780,000 payable in quarterly installments of \$195,000 and adjusted annually at 1.555% GNEPI (gross net earned premium income), subject to an annual minimum premium of \$624,000	
Effective date:	January 1, 2017, to January 1, 2018	
Intermediary:	Guy Carpenter	
Termination:	Under any part of Article 4 – Special Termination of the contract upon giving notice in writing	
9. Type:	Second Layer Property Catastrophe Excess of Loss Reinsurance	
Reinsurer:	<u>Domestic Placement</u>	
	Allied World Reinsurance Company	5.0%
	American Agricultural Insurance Company*	2.0
	American Agricultural Insurance Company**	2.0
	Dual Corporate Risks UK o/b/o National Union Fire*	5.0
	Employers Mutual Casualty Company*	1.5
	Employers Mutual Casualty Company**	1.5
	Farm Mutual Reinsurance Plan Inc. **	5.0
	Regional Treaty Services Facility*	5.0
	Shelter Reinsurance Company	6.5
	Swiss Re America Corp. **	<u>10.0</u>
		43.5
	<u>European Placement</u>	
	Hannover Ruck SE	5.0
	Lansforsakringar Sak Forsakrings AB**	6.5
	Mapfre Re, Compania de Reaseguros S.A.*	5.0
	Mapfre Re, Compania de Reaseguros S.A. **	5.0
	Sirius International Ins. Corp. (Publ)	12.5
	Sirius International Ins. Corp. (PRAM)	<u>12.5</u>
		46.5
	<u>Guy Carpenter London Placement</u>	
	General Insurance Corporation of India	<u>10.0</u>
	<u>Total Placement</u>	<u>100.0%</u>

Scope: Property business including automobile physical damage

Retention: \$11,000,000 each loss occurrence

Coverage: \$22,000,000 each loss occurrence, subject to annual aggregate limit of \$44,000,000 for all loss occurrences

Reinstatement: One reinstatement at 100% with respect to time and pro rata as respects amount

Premium: Annual deposit premium of \$440,000 payable in quarterly installments of \$110,000 and adjusted annually at 0.877% GNEPI (gross net earned premium income), subject to an annual minimum premium of \$352,000

Effective date: January 1, 2017, to January 1, 2018

Intermediary: Guy Carpenter

Termination: Under any part of Article 4 – Special Termination of the contract upon giving notice in writing

Layer	First	Second
*2-Year Total (Placed 1/1/16)	30.0%	30.0%
**2-Year Total (Placed 1/1/17)	23.5%	18.5%
1-Year Total (Placed 1/1/17)	46.5%	51.5%
Total Coverage	100%	100%

Note that Badger's CAT program participation percentages are placed with some reinsurers for a one year term and others a two year term.

10. Type: Third Layer Property Catastrophe Excess of Loss Reinsurance

Reinsurer: Domestic Placement
Mutual Reinsurance Bureau 100.0%

Total Placement 100.0%

Scope: Property business including automobile physical damage

Retention: \$33,000,000 each loss occurrence

Coverage: \$7,000,000 each loss occurrence

Reinstatement: One free reinstatement per contract year

Premium: Annual deposit premium of \$143,500 payable in quarterly installments of \$35,875 and adjusted annually at 0.286% GNEPI (gross net earned premium income), subject to an annual minimum premium of \$143,500

Effective date: January 1, 2017, to January 1, 2018

Intermediary: Guy Carpenter

Termination:	Under any part of Article 4 – Special Termination of the contract upon giving notice in writing	
11. Type:	Aggregate Catastrophe Excess of Loss	
Reinsurer:	<u>Domestic Placement</u>	
	Farm Mutual Reinsurance Plan Inc.	16.25%
	Regional Treaty Services Facility	<u>30.00</u>
		46.25
	<u>European Placement</u>	
	Lansforsakringar Sak Forsakrings AB	8.75
	Sirius International Ins. Corp. (Publ)	12.50
	Sirius International Ins. Corp. (PRAM)	<u>12.50</u>
		33.75
	<u>Guy Carpenter London Placement</u>	
	General Insurance Corp of India	20.00
	<u>Total Placement</u>	<u>100.00%</u>
Scope:	Property business including automobile physical damage	
Retention:	\$5,000,000 of all subject ultimate net losses from loss occurrence during the term of this contract where subject ultimate net losses are defined as net losses that exceed \$500,000, each loss occurrence	
Coverage:	\$4,000,000	
Premium:	Annual deposit premium of \$800,000 payable in quarterly installments of \$200,000 and adjusted annually at 1.595% GNEPI (gross net earned premium income) and subject to an annual minimum premium of \$640,000	
Effective date:	January 1, 2017, to January 1, 2018.	
Intermediary:	Guy Carpenter	
Termination:	Under any part of Article 4 – Special Termination of the contract upon giving notice in writing	
12. Type:	Net Property Quota Share Reinsurance Agreement	
Reinsurer:	<u>Domestic Placement</u>	
	Endurance Assurance Corp.	5.00%
	Renaissance Reinsurance U.S. Inc.	<u>12.00</u>
		17.00
	<u>Guy Carpenter London Placement</u>	
	Pioneer Underwriting Ltd. obo Peak Reinsurance Co.	3.00
	<u>Total Placement</u>	<u>20.00%</u>
Scope:	Property business including automobile physical damage	
Coverage:	\$350,000 any one risk, or \$3,000,000 as respects any one Loss Occurrence	

Premium:	20% of the gross net written premium income for policies covered under the agreement.
Commissions:	34% ceding commission
Effective date:	December 31, 2017, to December 31, 2018
Intermediary:	Guy Carpenter
Termination:	Under any part of Article 4 – Special Termination of the contract upon giving notice in writing

Badger Mutual Insurance Company maintains facultative reinsurance contracts for its commercial policies to cover risks that exceed the risks covered under the main reinsurance program. The facultative reinsurance provides coverage as follows:

1. For property risks—exposures exceeding \$7,000,000 for buildings, contents and income
2. For casualty risks—exposures exceeding \$2,000,000 for primary policies and \$5,000,000 for Umbrella policies.

V. FINANCIAL DATA

The following financial statements reflect the financial condition of the company as reported to the Commissioner of Insurance in the December 31, 2017, 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.

Badger Mutual Insurance Company
Assets
As of December 31, 2017

	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	\$135,076,945	\$ 0	\$135,076,945
Stocks:			
Preferred stocks	210,566	0	210,566
Common stocks	10,201,987	0	10,201,987
Mortgage loans on real estate:			
First liens	2,017,320	0	2,017,320
Other than first liens			
Real estate:			
Occupied by the company	1,546,797	0	1,546,797
Properties held for the production of income	4,611,536	0	4,611,536
Cash, cash equivalents, and short-term investments	215,961	0	216,961
Receivables for securities	1,494	0	1,494
Investment income due and accrued	815,002	0	815,002
Premiums and considerations:			
Uncollected premiums and agents' balances in course of collection	306,497	0	306,497
Deferred premiums, agents' balances, and installments booked but deferred and not yet due	15,731,565	27,000	15,704,565
Reinsurance:			
Amounts recoverable from reinsurers	403,929	0	403,929
Net deferred tax asset	5,719,985	1,025,364	4,694,621
Electronic data processing equipment and software	296,020	189,095	106,925
Furniture and equipment, including health care delivery assets	175,038	175,038	0
Write-ins for other than invested assets:			
Corporate Owned Life Insurance	4,747,612	0	4,747,612
Prepaid Pension	1,440,989	1,440,989	0
Rent Receivable	19,856	0	19,856
Amounts W/H – FSA	38,016	38,016	0
	<u>38,016</u>	<u>38,016</u>	<u>0</u>
Total Assets	<u>\$183,577,116</u>	<u>\$2,895,501</u>	<u>\$180,681,615</u>

Badger Mutual Insurance Company
Liabilities, Surplus, and Other Funds
As of December 31, 2017

Losses	\$ 39,635,936
Loss adjustment expenses	12,568,214
Commissions payable, contingent commissions, and other similar charges	3,920,651
Other expenses (excluding taxes, licenses, and fees)	1,162,665
Taxes, licenses, and fees (excluding federal and foreign income taxes)	535,897
Current federal and foreign income taxes	330,098
Unearned premiums	39,173,381
Advance premium	1,246,127
Dividends declared and unpaid:	
Policyholders	22,868
Ceded reinsurance premiums payable (net of ceding commissions)	3,868,920
Amounts withheld or retained by company for account of others	20,711
Remittances and items not allocated	11,189
Write-ins for liabilities:	
Escheats	684,340
Pension Payable	<u>7,591,088</u>
 Total Liabilities	 110,772,085
 Write-ins for special surplus funds:	
Unassigned funds (surplus)	<u>\$69,909,530</u>
 Surplus as Regards Policyholders	 <u>69,909,530</u>
 Total Liabilities and Surplus	 <u>\$180,681,615</u>

Badger Mutual Insurance Company
Summary of Operations
For the Year 2017

Underwriting Income		
Premiums earned		\$89,606,290
Deductions:		
Losses incurred	\$52,710,579	
Loss adjustment expenses incurred	11,259,029	
Other underwriting expenses incurred	<u>26,309,670</u>	
Total underwriting deductions		<u>90,279,278</u>
Net underwriting gain (loss)		(672,988)
Investment Income		
Net investment income earned	3,365,476	
Net realized capital gains (losses)	<u>157,660</u>	
Net investment gain (loss)		3,523,137
Other Income		
Net gain (loss) from agents' or premium balances charged off	(72,573)	
Finance and service charges not included in premiums	<u>433,983</u>	
Total other income		<u>361,409</u>
Net income (loss) before dividends to policyholders and before federal and foreign income taxes		3,211,557
Dividends to policyholders		<u>78,142</u>
Net income (loss) after dividends to policyholders but before federal and foreign income taxes		3,133,415
Federal and foreign income taxes incurred		<u>453,664</u>
Net Income		<u>\$ 2,679,750</u>

Badger Mutual Insurance Company
Cash Flow
For the Year 2017

Premiums collected net of reinsurance		\$88,763,417
Net investment income		4,612,437
Miscellaneous income		<u>361,409</u>
Total		93,737,264
Benefit- and loss-related payments	\$55,116,152	
Commissions, expenses paid, and aggregate write-ins for deductions	36,014,573	
Dividends paid to policyholders	88,723	
Federal and foreign income taxes paid (recovered)	<u>(1,073)</u>	
Total deductions		91,218,375
Net cash from operations		2,518,889
Proceeds from investments sold, matured, or repaid:		
Bonds	\$30,876,413	
Stocks	2,004,974	
Mortgage loans	48,060	
Miscellaneous proceeds	<u>175</u>	
Total investment proceeds		32,929,623
Cost of investments acquired (long-term only):		
Bonds	36,206,050	
Stocks	215,386	
Mortgage loans		
Real estate	49,298	
Other invested assets	<u>357,227</u>	
Total investments acquired		<u>36,827,962</u>
Net cash from investments		(3,898,339)
Cash from financing and miscellaneous sources:		
Other cash provided (applied)	<u>(317,244)</u>	
Net cash from financing and miscellaneous sources		<u>(317,244)</u>
Reconciliation:		
Net Change in Cash, Cash Equivalents, and Short-Term Investments		(1,696,694)
Cash, cash equivalents, and short-term investments:		
Beginning of year		<u>1,912,654</u>
End of Year		<u><u>\$215,961</u></u>

**Badger Mutual Insurance Company
Compulsory and Security Surplus Calculation
December 31, 2017**

Assets		\$180,681,615
Less liabilities		<u>110,772,085</u>
Adjusted surplus		69,909,530
Annual premium:		
Lines other than accident and health	\$88,627,232	
Factor	<u>20%</u>	
Compulsory surplus (subject to a minimum of \$2 million)		<u>17,725,446</u>
Compulsory Surplus Excess (Deficit)		<u>\$ 52,184,084</u>
Adjusted surplus (from above)		\$ 69,909,530
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>24,461,115</u>
Security Surplus Excess (Deficit)		<u>\$ 45,448,415</u>

Badger Mutual Insurance Company
Analysis of Surplus
For the Five-Year Period Ending December 31, 2017

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

	2017	2016	2015	2014	2013
Surplus, beginning of year	\$66,997,521	\$64,155,125	\$61,905,841	\$57,918,963	\$62,274,152
Net income	2,679,750	4,664,386	4,040,808	2,431,412	(5,372,166)
Change in net unrealized capital gains/losses	1,049,327	(310,971)	512,680	(262,664)	720,794
Change in net deferred income tax	(3,504,134)	(1,165,981)	2,572,380	8,078,247	371,300
Change in nonadmitted assets	3,068,001	724,590	(902,513)	(4,300,453)	1,207,617
Cumulative effect of changes in accounting principles					(1,282,734)
Write-ins for gains and (losses) in surplus: Pension/Valuation/ Interest Rate Change	<u>(380,934)</u>	<u>(1,069,628)</u>	<u>(3,974,071)</u>	<u>(1,959,664)</u>	<u>0</u>
Surplus, End of Year	<u>\$69,909,530</u>	<u>\$66,997,521</u>	<u>\$64,155,125</u>	<u>\$61,905,841</u>	<u>\$57,918,963</u>

Badger Mutual Insurance Company
Insurance Regulatory Information System
For the Five-Year Period Ending December 31, 2017

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

Ratio	2017	2016	2015	2014	2013
#1 Gross Premium to Surplus	148%	145%	154%	163%	172%
#2 Net Premium to Surplus	125	131	142	150	160
#3 Change in Net Premiums Written	0	(4)	(2)	0	2
#4 Surplus Aid to Surplus	2	0	0	0	0
#5 Two-Year Overall Operating Ratio	97	97	97	102*	98
#6 Investment Yield	2.2*	1.6*	1.4*	2.0*	2.1*
#7 Gross Change in Surplus	4	4	4	7	(7)
#8 Change in Adjusted Surplus	4	4	4	7	(7)
#9 Liabilities to Liquid Assets	65	67	69	68	71
#10 Agents' Balances to Surplus	0	0	1	1	1
#11 One-Year Reserve Development to Surplus	2	8	7	3	14
#12 Two-Year Reserve Development to Surplus	11	16	6	19	9
#13 Estimated Current Reserve Deficiency to Surplus	9	8	3	7	5

Ratio No. 5 measures the company's profitability over the previous two-year period.

The exceptional results in 2014 were due to two consecutive years of underwriting losses incurred, specifically in private passenger auto and commercial multi-peril (liability portion) lines of business.

Ratio No. 6 measures the average return on the company's investments. The exceptional results were mainly due to low interest rate environment of recent years.

Growth of Badger Mutual Insurance Company

Year	Admitted Assets	Liabilities	Surplus as Regards Policyholders	Net Income
2017	\$180,681,615	\$110,772,085	\$69,909,530	\$2,679,750
2016	177,601,657	110,604,136	66,997,521	4,664,386
2015	174,064,648	109,909,523	64,155,125	4,040,808
2014	168,151,700	106,245,859	61,905,841	2,431,412
2013	160,982,800	103,063,837	57,918,963	(5,372,166)
2012	158,003,294	95,729,142	62,274,152	9,755,762

Year	Gross Premium Written	Net Premium Written	Premium Earned	Loss and LAE Ratio	Expense Ratio	Combined Ratio
2017	\$103,726,887	\$87,521,374	\$89,606,290	71.4%	29.6%	101.0%
2016	97,387,257	87,478,237	88,126,468	70.1	29.0	99.1
2015	98,626,959	90,955,015	91,225,983	69.6	28.1	97.7
2014	100,737,883	92,996,915	92,598,849	74.2	28.2	102.4
2013	99,950,899	92,879,904	91,686,231	79.9	29.5	109.4
2012	97,672,519	90,809,384	90,854,414	64.1	29.0	93.1

The company has posted underwriting losses in three of the last five years, recorded deficient one-year and two-year loss reserve development in each of the last five years, and had an average combined ratio of 102.1%. Losses have occurred in both liability lines and property lines over the past several years due to adverse development in liability claims related to private passenger auto and commercial multiple peril lines of business, as well as several weather-related catastrophic events in Midwestern states, which account for approximately 80% of premium written. Despite losses and adverse development, the company has increased surplus approximately 21% over the latest five-year period, and reported net income in four of the last five years. The company has placed increased emphasis on improved pricing sophistication to more effectively match premium to risk selection, and continues to increase writings in western states to enhance geographic diversification. At the end of 2017, premium written in western states represented approximately 18% of the company's direct business.

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, 2017, is accepted.

Examination Reclassifications

No reclassifications were made as a result of the examination.

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

The current examination resulted in no exam recommendations, reclassifications, or surplus adjustments.

VI. CONCLUSION

Badger Mutual Insurance Company is a mutual insurer writing both personal and commercial lines of insurance with a primary goal to operate profitably and remain competitive in the continued soft insurance market. New product offerings, such as Cyber Liability and Employee Practices Liability insurance, have enhanced the company's commercial package, while being fully reinsured.

During the period under examination, the company's admitted assets have increased by 12%, liabilities have increased by 7%, and surplus has increased by 21%. The increase in admitted assets and surplus was attributable to positive net cash from operations in each of the last five years. As of December 31, 2017, the Company reported surplus of \$69,909,530, total admitted assets of \$180,681,615, and liabilities of \$110,772,085.

The current examination resulted in no recommendations, reclassifications, or surplus adjustments.

VII. SUMMARY OF COMMENTS AND RECOMMENDATIONS

The current examination resulted in no recommendations. There were no adjustments or reclassifications to the balance sheet amounts as a result of this examination.

VIII. 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
Judith Michael	Insurance Financial Examiner and ACL Specialist
Michael Miller	Insurance Financial Examiner
David Jensen	IT Specialist
Jerry DeArmond	Reserve Specialist

Respectfully submitted,

Nicholas Hartwig
Examiner-in-Charge