Report

of the

Examination of

Church Mutual Insurance Company

Merrill, Wisconsin

As of December 31, 2017

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State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

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Mark V. Afable, *Commissioner*

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April 8, 2019

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:

CHURCH MUTUAL INSURANCE COMPANY
Merrill, Wisconsin

and this report is respectfully submitted.

I. INTRODUCTION

The previous examination of Church Mutual Insurance Company (Church Mutual or the company) was conducted in 2014 as of December 31, 2013. The current examination covered the intervening period ending December 31, 2017, and included a review of such 2018 and 2019 transactions as deemed necessary to complete the examination.

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

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

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

Emphasis was placed on those areas of the company's operations accorded a high priority by the examiner-in-charge when planning the examination.

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.

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

Church Mutual was organized in 1897 as the Wisconsin Church Mutual Fire Insurance Association. The company was founded for the purpose of providing insurance under the mutual plan to any church, church society, or pastor of one of the synods constituting the Evangelical Lutheran Synodical Conference, or the Norwegian Evangelical Church of America. It commenced business on June 3, 1897.

A revision of the articles of incorporation adopted at a special meeting of the policyholders held on October 16, 1947, changed the name of the company to the Wisconsin Church Mutual Fire Insurance Company and set forth the following corporate purposes that have continued to the time of this examination:

> "This company is organized for the purpose of insuring upon the mutual plan the members against any of the hazards as may be authorized or permitted for companies of its class under the laws of the state of Wisconsin as they are or may be hereafter amended. This revision in the statement of corporate purpose was made to reflect the diversity of religious denominations the company has begun to serve."

An amendment to the articles of incorporation adopted at the annual policyholders' meeting held March 19, 1952, changed the name to Church Mutual Insurance Company.

The company has been the acquiring party in a succession of mergers during its history. The company absorbed all of the assets and assumed all of the liabilities of the following companies:

- Lutheran Mutual Fire Insurance Company of Burlington, Iowa, on June 11, 1949;
- Mutual Fire Insurance Society of the Michigan Conference of Evangelical United Brethren Church, Ltd., Mount Pleasant, Michigan, on September 1, 1953;
- American Church and Home Mutual Insurance Company of Madison, Wisconsin, on November 30, 1962;
- Cheese Makers Mutual Insurance Company of Madison, Wisconsin, on February 1, 1963; and
- Furniture Mutual Insurance Company of Milwaukee, Wisconsin, on May 31, 1963.

Church Mutual formed the subsidiaries CM Vantage Specialty Insurance Company (CM Vantage) and CM Select Insurance Company (CM Select) in 2015 and 2017, respectively. The company acquired 100% of School Boards Insurance Company of Pennsylvania, Inc. (SBIC) and School Claims Services, LLC (SCS) on June 1, 2016. The names of both SBIC and SCS were changed in 2016 to CM Regent Insurance Company (CM Regent) and CM Regent LLC, respectively. CM Regent is a stock insurance company domiciled in the State of Pennsylvania, and CM Regent LLC is a limited liability company organized under the laws of Pennsylvania; it performs insurance services for an affiliated group. Finally, in 2018 Church Mutual acquired 100% interest in American Sterling Insurance Company (American Sterling), a liquidated company domiciled in California. This purchase transaction is discussed in the "Subsequent Events" subsection of this report below.

Church Mutual is licensed in all 50 states and the District of Columbia. The company writes significant direct premium in all areas of the country. Church Mutual went from being the only insurer in the holding company structure in the previous examination to the parent company of four other insurers in the current examination.

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

California	$ 87,196,253	12.4%
Texas	70,700,211	10.0
New York	51,715,061	7.3
Illinois	33,489,470	4.7
Wisconsin	32,285,766	4.6
North Carolina	27,552,241	3.9
Georgia	27,122,716	3.8
Pennsylvania	24,526,500	3.5
All Others	351,321,757	49.8
Total	$705,909,975	100.0%

Church Mutual specializes in providing property and casualty insurance coverage for churches and religious institutions, which also includes camp buildings, senior living facilities, schools, church offices, and apartments. In 1998, the company redirected and reorganized its efforts to better serve senior living facilities, including non-religious facilities. The company has moved to expand into religious-affiliated and secular organizations, including camps, long-term care facilities, and food pantries.

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. Amounts are in thousands.

Line of Business	Direct Premium	Reinsurance Assumed	Reinsurance Ceded	Net Premium
Fire	$ 266	$ 461	$ 8	$ 719
Allied lines	5,192	12,161	928	16,424
Farmowners multiple peril		172		172
Homeowners multiple peril	1,105	2,520	81	3,544
Commercial multiple peril	443,845	15,195	52,419	406,621
Inland marine	55	(20)	3	31
Medical professional liability - occurrence	4,462		118	4,344
Medical professional liability - claims made	6,573		174	6,399
Workers' compensation	175,373	18,135	5,350	188,158
Other liability – occurrence	20,083	21,226	665	40,645
Other liability – claims made	1,362	5,814	35	7,141
Commercial auto liability	37,099	3,077	1,305	38,871
Auto physical damage	10,488	775	282	10,980
Burglary and theft	7			7
Reinsurance – non-proportional assumed property		3,405		3,405
Reinsurance – non-proportional assumed liability		2,965		2,965
Total All Lines	$705,910	$85,885	$61,368	$730,427

Church Mutual distributes its business through two distinct channels—direct writers sales force and a network of independent agents and brokers. At year-end 2018, Church Mutual generated approximately 63% of its total premium from 156 direct sales territories. A Division Manager is responsible for the production of business in assigned states through home-based employee Regional Representatives. Representatives are compensated with a base salary as well as commission payments (ranging from 10% to 25%) on the annual premium of new policies in all lines of business, excluding any amounts charged for payment plans, taxes, or surcharges. In addition, each representative earns a varying commission rate on the assigned book of business (including renewals, endorsements, annualizations, cancellations, audits, and reinstatements) based on experience level. These commission rates begin at 1% and range to a maximum of 2% on the book of business. Finally, representatives are incented with a bonus plan based upon the attainment of production and profitability goals.

The Direct Sales business unit is supported by 65 Account Manager (AM) territories. The company's AMs provide on-site service to Church Mutual policyholders. These service-focused employees have the opportunity to cross-sell supplemental lines of business to earn a new business commission at a rate of 10%. Account Managers also receive 0.4% to 0.45% commission payments on all premiums other than new premium, excluding any amounts charged for payment plans, taxes, or surcharges. AMs are also eligible for bonus payments based upon assigned production and profitability metrics. The company's direct system is supported by a service team which includes Service Representatives.

Broker/Specialty Markets

Since 2008, the company's Special Accounts function was transformed into a Broker/Specialty Markets business unit, which distributes products through active contracted agencies in select states (California, Nevada, Hawaii, and Montana) as well as independent agents and brokers. Through December 31, 2018, Church Mutual has business written with 139 brokers or independent agents. The company's standard commission rates for brokers and independent agents are 5% on worker's compensation and 15% on other lines. In addition to the regular commission, brokers and independent agents participate in the profits of the business written for Church Mutual by and through the independent agent or broker. To be eligible for the profit-sharing plan, the broker or independent agent must achieve a minimum written premium of $1 million with Church Mutual and a profitable book of business. If all contingencies are met, the plan pays the independent agency or brokerage additional compensation subject to a sliding scale.

Subsequent Events

On June 26, 2018, Church Mutual filed a Form A statement with the State of California indicating its intent to purchase 100% of the outstanding stock of American Sterling Insurance Company. American Sterling wrote low-limit automobile policies and professional liability coverage to mortgage lenders prior to being placed in liquidation. It was placed into liquidation on October 26, 2011, by the California liquidation court; the liquidation estate was ordered closed on October 17, 2017. At the time of acquisition, American Sterling was a

California-domiciled liquidated shell company. All policies had been terminated and it has written no insurance business since November 25, 2011. At the time of liquidation, American Sterling held Certificates of Authority to conduct insurance business in 15 states in addition to California. These licenses are no longer active, having been surrendered, revoked, or placed in inactive status. The transaction was approved by the California Department of Insurance on September 14, 2018. Church Mutual submitted an application to re-domesticate American Sterling to the Wisconsin Office of the Commissioner of Insurance (OCI) pursuant to s. 611.223, Wis. Stat. and s. Ins 6.03, Wis. Adm. Code. OCI approved the application and issued the domestic certificate of authority on January 10, 2019. As of the date of this examination report, American Sterling is in the process of obtaining recognition by the State of California of its redomestication to Wisconsin. It is expected that this process will be completed in 2019. American Sterling has been a part of the current group examination treated as the Wisconsin-domiciled subsidiary of Church Mutual. American Sterling is not writing any business at this time and will not do so until the redomestication process is complete.

III. MANAGEMENT AND CONTROL

Board of Directors

The board of directors consists of 10 members. Three directors are elected annually to serve three-year terms. Officers are elected at the board's annual meeting. Members of the company's board of directors may also be members of other boards of directors in the holding company group. The board members currently receive the following compensation for serving on the board:

Current Board Meeting Fees:

Director fee: $145,000 per year
Non-executive vice chairman fee: $155,000 per year
Non-executive chairman fee: $193,000 per year
Special board meeting: $1,250 per meeting
Executive Committee meeting: $1,000 per meeting

Committee Meeting Fees:

Audit Committee, Capital Investment Committee, and Risk Management Committee:
$10,000 each member per year
Governance Committee and Executive Compensation and Human Resources Committee:
$5,000 each member per year

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

Name and Residence	Principal Occupation	Term Expires
John B. Williams Heartland, Wisconsin	Director, Associated Banc-Corp, Northwestern Mutual Wealth Management Company, Medical College of Wisconsin	2020
Gregory A. Smith Fox Point, Wisconsin	Executive-in-Residence and Lecturer, University of Wisconsin – Milwaukee Lubar School of Business	2021
Allen L. Leverett Shorewood, Wisconsin	Director, WEC Energy Group	2020
David F. Pauly Plymouth, Wisconsin	Director, Canal Insurance Company	2020
Marsha A. Lindsay Monona, Wisconsin	Chair and Chief Strategist Lindsay, Stone and Briggs, Chief Executive Officer Lindsay Foresight & Stratagem	2020

Name and Residence	Principal Occupation	Term Expires
Richard V. Poirier Wausau, Wisconsin	President and Chief Executive Officer, Church Mutual Insurance Company	2021
Michael E. Ravn Merrill, Wisconsin	Chief Executive Officer Emeritus, Church Mutual Insurance Company	2021
Judith P. Greffin Oak Park, Illinois	Retired – Executive Vice President and Chief Investment Officer, Allstate Insurance Company	2022
Lori A. Weyers Wausau, WI	President of North-Central Technical College	2022
Walter H. White, Jr. London, England	Retired Partner, McGuireWoods London, LLP (Retired from Board December 7, 2018)	N/A

Officers of the Company

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

Name	Office	2018 Compensation*
Richard V. Poirier	President and Chief Executive Officer	$1,217,237
Cheryl A. Kryshak	Vice President – Risk Control	1,105,144
Randy J. Brandner	Vice President – Product Management	997,552
Kevin D. Root	Executive Vice President – Operations	732,389
Steven C. Rominske	Senior Vice President – Chief Actuary & Chief Risk Officer	471,674
Jeffrey D. Steffen	Vice President – Chief Financial Officer	428,291
Scott W. Steele	Vice President – Chief Marketing Officer	422,460
Scott M. Names	Vice President – Chief Information Officer & Integration Officer	419,864

* The 2018 Compensation includes the direct and indirect remuneration for the officer’s services for all companies in the Church Mutual Group, including Church Mutual Insurance Company.

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:

Executive Committee
Richard V. Poirier, Chair
Gregory A. Smith
John B. Williams

Risk Management Committee
David F. Pauly, Chair
Judith P. Greffin
Richard V. Poirier
Michael E. Ravn
John B. Williams

Executive Compensation and Human Resources Committee
Lori A. Weyers, Chair
Gregory A. Smith
John B. Williams

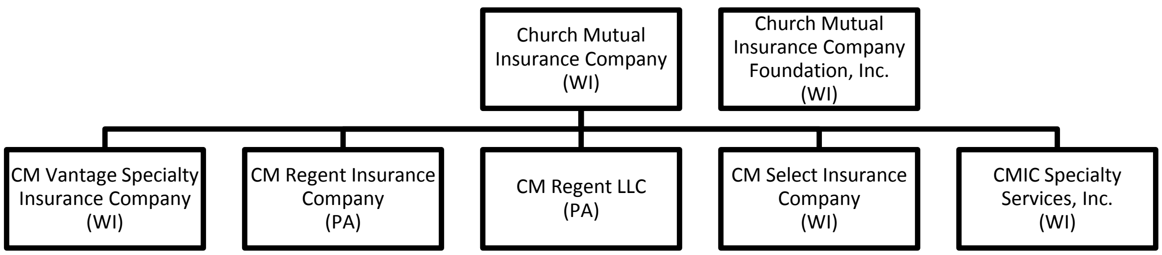
Audit Committee
Gregory A. Smith, Chair
Allen L. Leverett
Marsha A. Lindsay
Lori A. Weyers

Capital Investments Committee
Marsha A. Lindsay, Chair
David F. Pauly
John B. Williams
Judith P. Greffin
Michael E. Ravn
Richard V. Poirier

IV. AFFILIATED COMPANIES

Church Mutual is the ultimate parent 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, 2017*



* Church Mutual acquired 100% of American Sterling in September 2018. Details of this transaction are discussed in the “History and Plan of Operations” section of this report.

CM Vantage Specialty Insurance Company

CM Vantage is a wholly owned stock insurance subsidiary of Church Mutual. It was incorporated on November 12, 2015, under the laws of the State of Wisconsin. CM Vantage commenced operations in 2016 providing property and liability lines of insurance in the surplus lines market. As of December 31, 2017, the audited statutory financial statements of CM Vantage Specialty Insurance Company reported assets of $61,692,000, liabilities of $8,528,000, and capital and surplus of $53,164,000. Operations for 2017 produced a net income of $640,000.

CM Regent Insurance Company

CM Regent is a wholly owned stock insurance subsidiary of Church Mutual. Church Mutual acquired CM Regent (previously known as School Boards Insurance Company of Pennsylvania) on June 1, 2016, from the Pennsylvania School Boards Association Insurance Trust, a Business Trust organized under the laws of the State of Pennsylvania. CM Regent provides a variety of insurance products to Association member school boards, including workers’ compensation, property and casualty, and general liability coverage. CM Regent is domiciled in Pennsylvania. As of December 31, 2017, the audited statutory financial statements of CM

Regent Insurance Company reported assets of $190,935,000, liabilities of $109,522,000, and capital and surplus of $81,413,000. Operations for 2017 produced a net income of $13,427,000.

CM Regent, LLC

CM Regent, LLC provides various claims and administrative related services to the group. As of December 31, 2017, the audited financial statements of CM Regent, LLC reported assets of $25,737,000, liabilities of $11,883,000, and member's equity of $13,854,000. Operations for 2017 produced a net income of $239,000. The company was acquired in 2016 and was previously known as School Claims Services, LLC.

CM Select Insurance Company

CM Select is a wholly-owned stock insurance subsidiary of Church Mutual. It was incorporated on May 4, 2017, under the laws of the State of Wisconsin and began writing business in 2018. It provides business owners policy sold directly to customers. As of December 31, 2017, the audited statutory financial statements of CM Select reported assets of $19,753,000, liabilities of $(364,000), and capital and surplus of $20,117,000. Operations for 2017 produced a net income of $117,000.

CMIC Specialty Services, Inc.

CMIC Specialty Services, Inc., was organized as an insurance agency in 2006 for the purpose of obtaining and maintaining agency licenses in the states in which Church Mutual does business and placing business with other insurers on lines of business which Church Mutual was unwilling or not licensed to write, such as fidelity and surety bond insurance, liquor liability insurance, and group travel accident insurance. As of December 31, 2017, CMIC Specialty Services, Inc., reported assets of $650,885, liabilities of $607,751, and equity of $43,313. Operations for 2017 produced a net loss of $141,459. The financial statements of CMIC Specialty Service, Inc., were not audited as of the end of the examination, and its value was reported as non-admitted assets on the Church Mutual financial statements.

Agreements with Affiliates

Services Agreement

The amended and restated services agreement between Church Mutual and all of its affiliates, originally dated August 16, 2016, and most recently amended September 17, 2018, covers general and administrative services to be provided by the companies to one another and establishes the cost allocation methods and procedures for allocation of expenses related to those services.

Tax Sharing Agreement

The amended and restated tax sharing agreement between Church Mutual and its affiliates, originally dated June 1, 2016, and most recently amended November 2, 2018, was to ensure that the federal tax liability determined at the end of the taxable year of any individual member of the affiliated group shall not be more than it would have paid if it had filed on a separate return basis. Intercompany tax balances are settled with payments made within 30 days of the filing of the affiliated group's return, and refunds are paid within 30 days after requested receipt of a tax refund.

Capital Maintenance Agreement

The capital maintenance agreement was entered into between Church Mutual and CM Select on May 31, 2018. This agreement ensures that CM Select's surplus is adequate to produce a Risk-Based Capital level at or above 350% as calculated based on the most recent year-end annual financial statements.

V. REINSURANCE

The company's reinsurance portfolio and strategy 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: Property Per Risk Excess of Loss Reinsurance Contract

Reinsurer: The brokered reinsurers, and their respective participation by layer, include the following. Only reinsurers who are allocated at least 5% of a single layer are listed individually.

Subscribing Reinsurer	Layer 1	Layer 2	Layer 3
Everest Reins. Co.	20.0%	20.0%	20.0%
Hannover Ruck SE	8.0	8.0	5.0
Lancashire Ins. Co. LTD.	0.0	0.0	7.0
Mapfre Re, Compania de Reaseguros, SA	3.5	6.0	10.0
Mutual Re	30.0	30.0	20.0
Partner Reins. Co. of the U.S.	10.0	6.5	3.5
R+V Versicherung AG	7.5	7.5	7.5
SCOR Reins. Co.	7.5	7.5	10.0
Underwriters at Lloyd's, London	0.0	7.5	11.0
All Other Subscribing Reinsurers	13.5	7.0	6.0
Total Subscribing Reinsurers	100.0%	100.0%	100.0%

Scope: Property, including but not limited to fire, allied lines, inland marine, homeowners multiple peril (property coverages), commercial multiple peril (property coverages), or crime.

Terrorism coverage is included with an aggregate coverage limit indicated below.

Retention: Retention is $2.5 million for the first excess layer, $5.0 million for the second excess layer and $10.0 million for the third excess layer.

Coverage (in Millions):

	Layer 1	Layer 2	Layer 3
Limit per Risk per Loss Occurrence*	$2.5	$ 5.0	$10.0
Limit per Loss Occurrence for All Risks	7.5	10.0	10.0
Term Limit for All Act(s) of Terrorism	7.5	10.0	10.0
Term Limits for All Loss Occurrences	N/A	20.0	15.0

* This coverage is 25% in respect to Education Policies written on CM Regent Insurance Company and 100% to all other covered business.

Rate/Premium: Premium is 1.872% of subject earned premium for the first excess layer, 1.055% for the second excess layer and 0.295% for the third excess layer.

Commissions: No commission or contingent commission provisions

Effective Date: July 1, 2018, through July 1, 2019

Termination: The company may terminate this agreement by giving the reinsurer 15 days' prior written and certified notice in the event of circumstances listed in the Special Termination and Other Remedies article. The company may elect to terminate on either a run-off or cut-off basis subject to notice to the reinsurer of intent prior to the termination date.

2. Type: Property Facultative Agreement of Reinsurance

Reinsurer: Arch Reinsurance Company and General Reinsurance Company are subscribing reinsurers with 50% participation each.

Scope: Property business, including fire, allied lines, inland marine, commercial multiple peril (property coverages), and homeowners multiple peril (property coverages)

Retention: $15 million

Coverage: The limit of liability is $25 million. Liability for all risks involved in terrorism occurrences during each annual term will not exceed $50 million.

Rate/Premium: Premiums range from $261 to $813 per $1 million of reinsurance limit, based on the total insured value, construction type, protection class and presence of sprinklers on the property.

Earthquake coverage is $50 per $1 million of reinsurance limit.

Commissions: No commission or contingent commission provisions

Effective Date: April 1, 2015, until termination

Termination: Either party may terminate this agreement by giving the other party 90 days' prior written and certified notice. The company may elect to terminate on either a run-off or cut-off basis subject to notice to the reinsurer of intent prior to the termination date.

3. Type: Property Catastrophe Excess of Loss Reinsurance Contract

Reinsurer: The brokered reinsurers, and their respective participation by layer, include the following. Only reinsurers who are allocated at least 5% of a single layer are listed individually.

Subscribing Reinsurer	Layer 1*	Layer 2	Layer 3	Layer 4	Layer 5	Layer 6
Everest Reins. Co.	15.0%	10.0%	10.0%	10.0%	10.0%	10.0%
Hannover Re (Bermuda) Ltd.	5.0	3.5	3.5	3.5	3.5	3.5
Hannover Rück SE	5.0	4.0	0.0	0.0	0.0	0.0
MS Amlin AG, Bermuda Branch	1.0	1.0	2.0	3.0	5.0	5.0

Subscribing Reinsurer	Layer 1*	Layer 2	Layer 3	Layer 4	Layer 5	Layer 6
Partners Reins. Co. Ltd.	0.0	7.3	3.0	0.0	1.5	1.5
R+V Versicherung AG	5.0	3.0	3.5	3.0	3.0	4.0
Underwriters at Lloyd's, London	37.0	44.5	44.8	43.5	36.8	36.4
Tokio Millennium Re AG, Bermuda Branch	0.0	0.0	1.8	2.3	5.5	12.5
All Other Subscribing Reinsurers	18.0	26.7	31.4	34.7	34.7	27.1
Total Subscribing Reinsurers	86.0%	100.0%	100.0%	100.0%	100.0%	100.0%

* Church Mutual has retained 14% of the first excess layer

Scope: Property coverage, including automobile physical damage and excluding collision

Retention: Retention is $10 million for the first excess layer, $30 million for the second excess layer, $60 million for the third excess layer, $120 million for the fourth excess layer, $200 million for the fifth excess layer and $305 million for the sixth excess layer.

Coverage (in Millions):

	Layer 1	Layer 2	Layer 3	Layer 4	Layer 5	Layer 6
Limit per Risk per Loss Occurrence	$20	$30	$60	$80	$105	$50
Term Limit for All Loss Occurrences	40	60	120	160	210	100

Rate/Premium: Premium is 1.240% of gross net earned premium income of the first excess layer, 1.741% of the second and third excess layer, 1.055% of the fourth excess layer, 0.872% of the fifth excess layer and 0.317% of the sixth excess layer.

Commissions: No commission or contingent commission provisions

Effective Date: July 1, 2018, through June 30, 2019

Termination: The company may terminate this agreement by giving the reinsurer prior written and certified notice in the event of circumstances listed in the Special Termination article. The company may elect to terminate on a cut-off basis subject to notice to the reinsurer of intent prior to the termination date.

4. Type: Casualty Excess of Loss Reinsurance Contract

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

Subscribing Reinsurers	Layer 1	Layer 2	Layer 3	Layer 4	CAT Layer
BGS Services (Bermuda) Limited	0.0%	0.0%	0.0%	3.0%	3.0%
Hannover Ruck SE	25.0	25.0	25.0	15.0	0.0
Korean Reins. Co.	5.0	5.0	0.0	0.0	0.0
Mutual Re	25.0	25.0	10.0	5.0	0.0
Munich Reins. America, Inc.	6.0	20.0	20.0	20.0	25.0
Partner Reins. Co. of the U.S.	10.0	0.0	0.0	0.0	0.0
QBE Reins. Corp.	5.0	5.0	0.0	0.0	0.0
Safety Nat'l Cas. Corp.	5.0	5.0	5.0	5.0	5.0
SCOR Reins. Co.	15.0	15.0	15.0	15.0	0.0
Transatlantic Reins. Co.	4.0	0.0	0.0	0.0	0.0
Underwriters at Lloyd's, London	0.0	0.0	25.0	37.0	67.0
Total Subscribing Reinsurers	100.0%	100.0%	100.0%	100.0%	100.0%

Scope: The first, second, third, and fourth excess layers include casualty coverage, including workers' compensation and employers' liability coverage. The catastrophe (CAT) excess layers include workers' compensation and employer's liability coverage only.

Retention: Retention is $2 million for the first excess layer, $6 million for the second excess layer, $12 million for the third excess layer, $22 million for the fourth excess layer and $42 million for the catastrophe excess layer.

Coverage (in Millions):

	Layer 1	Layer 2	Layer 3	Layer 4	CAT Layer
Limit per Risk per Loss Occurrence	$4	$ 6	$10	$20	$10
Term Limit for All Acts of Terrorism	8	12	10	20	10
Term Limit for All Loss Occurrences	N/A	36	40	40	20

Rate/Premium: Premium is 1.9200% of the subject earned premium for the first excess layer, 0.4220% for the second excess layer, 0.2313% for the third excess layer, 0.2062% for the fourth excess layer and 0.0982% for the fifth excess layer.

Commissions: No commission or contingent commission provisions

Effective Date: July 1, 2018, through July 1, 2019

Termination: The company may terminate this agreement by giving the reinsurer 15 days' prior written and certified notice in the event of circumstances listed in the Special Termination and Other Remedies article. The company may elect to terminate on a cut-off basis subject to notice to the reinsurer of intent prior to the termination date.

5. Type: Multiple Line Reinsurance Agreement
Equipment Breakdown and Identity Recovery

Reinsurer: Hartford Steam Boiler Inspection and Insurance Company

Scope: Equipment breakdown liability as respects accidents and electronic circuitry impairments

Losses covered under Identity Recovery

Retention: None

Coverage: Equipment: 100% coverage subject to a maximum of $150 million for any one covered accident and/or electronic circuitry impairment.

Identity: 100% coverage subject to a maximum of $15 million annual aggregate per identity recovery insured.

Rate/Premium: The following rates are based on net written premium unless otherwise noted:

Class of Business	**Rate in Florida**	**Rate in Other States**
Religious organizations, schools other than colleges, camps, conference centers, and senior living facilities (other than skilled nursing facilities).	4.41%	3.96%
Equipment breakdown coverage for colleges and skilled nursing facilities.	6.74%	5.94%
Equipment breakdown coverage for excess and surplus lines. (Excess coverage only applies to business written by CM Vantage.)	3.96%	3.96%
Equipment breakdown coverage for business owners' policies.	4.41%	3.96%
Equipment breakdown coverage for public schools including charter schools, community and technical colleges, and intermediate units.	$0.0070 to $0.0074 per $100 total insured value based on the sublimit level	
Identity Recovery Charge	0.24% of gross annual property premium, excluding Equipment Breakdown premium	

Commissions: 30% commission of ceded premium

Profit share provision pays up to 40% of the reinsurer's profit after the allocation of expenses and paid losses.

Effective Date: January 1, 2018, until termination

Termination: Either party may terminate the agreement by giving the other party 90 days' prior written notice.

6. Type: Cyber Liability Quota Share Reinsurance Contract

	Reinsurer:	Beazley Syndicates 623 and 2623
	Scope:	Cyber liability and data breach business
	Retention:	None
	Coverage:	The Cyber Liability Policy coverage limit is $1 million in aggregate. The Data Breach Policy coverage limit is $250 thousand in aggregate
	Rate/Premium:	100% of gross net written premium income
	Commissions:	30% commission on the Independent Commercial Package Institutional Program (A Series) and 15% on Businessowners Policy
	Effective Date:	November 1, 2018, to October 31, 2019
	Termination:	Either party may terminate the agreement by giving the other party 90 days' prior written notice.
7.	Type:	Multiple Peril Crop Insurance and Crop Hail Multi-Year Quota Share Reinsurance
	Reinsurer:	The brokered reinsurers are Validus Reinsurance at 50%, Allied World Insurance Company at 20%, Axis Specialty Limited (ASL) at 20% and Toa Reinsurance Company of America (TRCA) at 10%.
	Scope:	Multiple Peril Crop Insurance (MPCI) and Crop Hail business
	Retention:	None
	Coverage:	100% coverage with no indicated limits
	Rate/Premium:	MPCI Premium: Final retained premium is allocated to reinsurers based on quota share. Crop Hail Premium: Gross net written premium income is allocated to reinsurers based on quota share.
	Commissions:	Validus will pay an advance commission of $5 million. Validus MPCI Commission: 7.5% of Net Retained Premium Validus Crop Hail: 24% to 29%, based on the ratio of ceded losses incurred to ceded Gross Net Written Premium Income Other Reinsurers Commission: 8% for MPCI, 27% for Crop Hail
	Effective Date:	MPCI: January 1, 2019, until the close of the 2020 FCIC Reinsurance Year Crop Hail: January 1, 2019, until December 31, 2020

	The reinsurers are liable for all losses for business written during the term upon expiration of the contract.
Termination:	The company may terminate this agreement by giving the reinsurer 15 days' prior written and certified notice in the event of circumstances listed in the Special Funding and Termination article. The company may elect to terminate on a cut-off basis subject to notice to the reinsurer of intent prior to the termination date.

Affiliated Assuming Contracts

Church Mutual entered into separate, 100% quota share reinsurance contracts with each of its insurance subsidiaries. The contracts include provisions for deposit funds made by Church Mutual to the subsidiaries providing them with a source of funds for payments of claims.

1.	Type:	Reinsurance Agreements
	Reinsured:	CM Vantage, CM Regent, CM Select, and American Sterling
	Scope:	Losses arising under Policies in-force, issued or renewed by the reinsured companies
	Retention:	None
	Coverage:	100% of the ultimate net loss under policies in force issued or renewed by the reinsured companies. Ultimate net loss is determined after making deductions for all recoveries, all salvages, and all claims upon other reinsurances which directly insure to the benefit of and collected by the reinsured companies. Church Mutual is liable for all third-party reinsurance that is not collected by the reinsured companies.
	Rate/Premium:	100% of the written premium collected, net of all inuring reinsurance purchased directly by the reinsured companies
	Commissions:	Underwriting expenses incurred by companies in connection with the policies ceded under these agreements
	Effective date:	CM Vantage: March 31, 2016 until termination CM Regent: October 1, 2016 until termination CM Select: September 1, 2017 until termination American Sterling: September 14, 2018 until termination
	Termination:	Cancellation may occur with 365 days' prior written notice by either company. Coverage will remain in effect for all policies this agreement was attached to.

Nonaffiliated Assuming Contracts

Effective January 1, 2013, Church Mutual became an assuming company member of Mutual Re. Mutual Re is an unincorporated joint reinsurance association located in Cherry Valley, Illinois. The purpose of Mutual Re is to facilitate reinsurance arrangements between the member companies and other insurance companies through the establishment of an office and the other member companies' appointment of an attorney-in-fact to arrange and effectuate reinsurance agreements on their behalf. The member companies are as follows: Church Mutual Insurance Company, Employers Mutual Casualty Company, Farm Bureau Mutual Insurance Company of Michigan, Kentucky Farm Bureau Mutual Insurance Company, and Motorists Mutual Insurance Company.

Each member company shares in the reinsurance premiums received through Mutual Re in proportion to the liability each member company assumes bears a proportionate share of losses and loss adjustment expenses incurred on reinsurance assumed, and will participate in all salvage.

Each member is required to collateralize 100% of its Mutual Re liabilities including, but not limited to, its share of the unearned premium reserve, outstanding loss reserve (including incurred-but-not-reported reserve), and contingent commission reserve for which the member company is liable based on its respective participation in Mutual Re.

Church Mutual's assumed business is from the Mutual Re pool and assigned risk involuntary pools. The company has ceded various types of business to Mutual Re for over 80 years. As part of its current arrangement with Mutual Re, Church Mutual does not assume any of its own business ceded to Mutual Re.

VI. FINANCIAL DATA

The following financial statements reflect the financial condition of Church Mutual 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.

Church Mutual Insurance Company
Assets
As of December 31, 2017
(Amounts in Thousands)

	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	$ 971,562	$	$ 971,562
Stocks:			
Preferred stocks	13,051		13,051
Common stocks	323,761	43	323,718
Real estate:			
Occupied by the company	13,330		13,330
Cash, cash equivalents, and short-term investments	48,329		48,329
Other invested assets	96,365		96,365
Investment income due and accrued	7,924		7,924
Premiums and considerations:			
Uncollected premiums and agents' balances in course of collection	69,325	2,764	66,561
Deferred premiums, agents' balances, and installments booked but deferred and not yet due	127,641		127,641
Reinsurance:			
Amounts recoverable from reinsurers	1,276		1,276
Funds held by or deposited with reinsured companies	266		266
Other amounts receivable under reinsurance contracts	2,380		2,380
Current federal and foreign income tax recoverable and interest thereon	10,319		10,319
Net deferred tax asset	29,936	5,387	24,549
Guaranty funds receivable or on deposit	190		190
Electronic data processing equipment and software	6,354	3,703	2,651
Furniture and equipment, including health care delivery assets	8,008	8,008	
Receivable from parent, subsidiaries, and affiliates	7,364		7,364
Write-ins for other than invested assets:			
CSV-Life Insurance	20,741		20,741
Prepaid Pension Costs	16,238	16,238	
Other Intangible Assets	683	683	
DDC Segregated Funds	1,520		1,520
Other Receivables	308	288	20
Prepaid Expenses	485	485	
Guaranty Fund Recoupment	33		33
Deductible Recoverable	53		53
Total assets	$1,777,443	$37,600	$1,739,844

Church Mutual Insurance Company
Liabilities, Surplus, and Other Funds
As of December 31, 2017
(Amounts in Thousands)

Losses		$ 415,138
Reinsurance payable on paid loss and loss adjustment expenses		8,174
Loss adjustment expenses		97,688
Commissions payable, contingent commissions, and other similar charges		11,462
Other expenses (excluding taxes, licenses, and fees)		21,450
Taxes, licenses, and fees (excluding federal and foreign income taxes)		4,467
Borrowed money and interest thereon		1,383
Unearned premiums		357,236
Advance premium		7,053
Dividends declared and unpaid:		
Policyholders		22,190
Ceded reinsurance premiums payable (net of ceding commissions)		2,067
Funds held by company under reinsurance treaties		13,892
Amounts withheld or retained by company for account of others		488
Provision for reinsurance		14
Payable for securities		28
Write-ins for liabilities:		
Reserve for Post Retirement Benefits		48,640
Reserve for Pensions and Deferred Compensation		20,391
Other Payables		4,244
Funds Held Under Deductible Programs		149
Total Liabilities		1,036,154
Write-ins for special surplus funds:		
Guaranty Fund	$ 1,600	
Unassigned funds (surplus)	702,090	
Surplus as regards policyholders		703,690
Total liabilities and surplus		$1,739,844

Church Mutual Insurance Company
Summary of Operations
For the Year 2017
(Amounts in Thousands)

Underwriting Income		
Premiums earned		$697,372
Deductions:		
Losses incurred	$398,930	
Loss adjustment expenses incurred	65,585	
Other underwriting expenses incurred	226,871	
Total underwriting deductions		691,386
Net underwriting gain (loss)		5,986
Investment Income		
Net investment income earned	29,400	
Net realized capital gains (losses)	9,991	
Net investment gain (loss)		39,931
Other Income		
Net gain (loss) from agents' or premium balances charged off	(404)	
Finance and service charges not included in premiums	1,317	
Write-ins for miscellaneous income:		
Increase in Cash Value of Life Insurance	448	
Interest on Borrowed Money	(44)	
Miscellaneous	592	
Interest on Reinsurance Contract	(278)	
Impairment of Capitalized Assets	(3,553)	
Total other income		(1,922)
Net income (loss) before dividends to policyholders and before federal and foreign income taxes		43,456
Dividends to policyholders		14,386
Net income (loss) after dividends to policyholders but before federal and foreign income taxes		29,070
Federal and foreign income taxes incurred		533
Net income		$ 28,537

Church Mutual Insurance Company
Cash Flow
For the Year 2017
(Amounts in Thousands)

Premiums collected net of reinsurance			$664,823
Net investment income			38,855
Miscellaneous income			2,844
Total			706,522
Benefit- and loss-related payments		$332,153	
Commissions, expenses paid, and aggregate write-ins for deductions		265,269	
Dividends paid to policyholders		13,036	
Federal and foreign income taxes paid (recovered)		9,660	
Total deductions			620,118
Net cash from operations			86,404
Proceeds from investments sold, matured, or repaid:			
Bonds	$520,549		
Stocks	66,583		
Other invested assets	2,865		
Net gains (losses) on cash, cash equivalents, and short-term investments	(12)		
Miscellaneous proceeds	28		
Total investment proceeds		590,014	
Cost of investments acquired (long-term only):			
Bonds	543,651		
Stocks	48,071		
Real estate	725		
Other invested assets	32,358		
Total investments acquired		624,806	
Net cash from investments			(34,791)
Cash from financing and miscellaneous sources:			
Borrowed funds		(206)	
Other cash provided (applied)		(3,799)	
Net cash from financing and miscellaneous sources			(4,005)
Reconciliation:			
Net Change in Cash, Cash Equivalents, and Short-Term Investments			47,607
Cash, cash equivalents, and short-term investments:			
Beginning of year			722
End of year			$ 48,329

Church Mutual Insurance Company
Compulsory and Security Surplus Calculation
December 31, 2017
(Amounts in Thousands)

Assets		$1,739,845
Less investments in insurance subsidiaries		128,866
Plus security surplus excess of insurance subsidiaries		146,295
Less liabilities		1,036,154
Adjusted surplus		721,120
Annual premium:		
Lines other than accident and health	$723,822	
Factor	20%	
Compulsory surplus (subject to a minimum of $2 million)		144,764
Compulsory surplus excess (deficit)		$ 576,356
Adjusted surplus (from above)		$721,120
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%)		172,270
Security surplus excess (deficit)		$548,850

Church Mutual Insurance Company
Analysis of Surplus
For the Four-Year Period Ending December 31, 2017
(Amount in Thousands)

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**
Surplus, beginning of year	$663,763	$585,071	$536,661	$473,189
Net income	28,537	49,350	58,055	76,039
Change in net unrealized capital gains/losses	33,008	23,783	(3,963)	(1,979)
Change in net deferred income tax	(28,872)	1,797	5,256	2,194
Change in nonadmitted assets	9,272	(8,638)	(11,346)	(92)
Change in provision for reinsurance	(9)	512	(507)	32
Write-ins for gains and (losses) in surplus:				
Change in Post Retirement Liability SSAP 92	(2,250)	(423)	3,396	(4,297)
Surplus Impact of Application of Settlement Accounting to Defined Benefit Plan	762	890	1,351	1,820
Tax Impact of Re-Evaluation of SSAP 92 & 102	(703)	4,161	320	(5,090)
Change in Pension Liability SSAP 102	182	7,260	(4,152)	(5,155)
Surplus, end of year	$703,690	$663,763	$585,071	$536,661

Church Mutual Insurance Company
Insurance Regulatory Information System
For the Four-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
#1	Gross Premium to Surplus	113%	108%	118%	123%
#2	Net Premium to Surplus	104	97	105	110
#3	Change in Net Premiums Written	13	5	5	6
#4	Surplus Aid to Surplus	0	0	0	0
#5	Two-Year Overall Operating Ratio	93	88	85	90
#6	Investment Yield	2.1*	2.0*	2.1*	2.5*
#7	Gross Change in Surplus	6	13	9	13
#8	Change in Adjusted Surplus	6	13	9	13
#9	Liabilities to Liquid Assets	74	72	74	71
#10	Agents' Balances to Surplus	9	6	7	7
#11	One-Year Reserve Development to Surplus	1	-1	-1	-6
#12	Two-Year Reserve Development to Surplus	-3	-2	-5	-8
#13	Estimated Current Reserve Deficiency to Surplus	-2	0	-6	0

Ratio No. 6 measures the company's investment yield over the previous year. The exceptional results during the examination period were due to lower investment yields throughout the market place. This has not been an unusual result for property insurers and is not a concern.

Growth of Church Mutual Insurance Company
(Amounts in Thousands)

Year	Admitted Assets	Liabilities	Surplus as Regards Policyholders	Net Income
2017	$1,739,844	$1,036,154	$703,690	$28,537
2016	1,625,579	961,815	663,763	49,350
2015	1,643,868	1,058,797	585,071	58,055
2014	1,453,567	916,906	536,661	76,038
2013	1,357,736	884,546	473,189	(4,899)

Year	Gross Premium Written	Net Premium Written	Premium Earned	Loss and LAE Ratio	Expense Ratio	Combined Ratio
2017	$791,795	$730,427	$697,372	66.6%	31.3%	97.9%
2016	713,597	645,771	629,839	55.9	35.0	90.9
2015	687,980	615,717	604,407	57.8	31.1	88.9
2014	660,587	588,955	582,314	58.2	28.8	87.0
2013	640,108	557,299	535,784	63.6	38.2	101.8

Admitted assets grew 28%, liabilities grew 17%, and surplus grew 49% during the past four years. This growth was primarily driven by strong operating results from 2014 to 2017 (with the newly formed CM Vantage beginning to write business in 2016 and ceding all business to Church Mutual) and net unrealized gains from 2016 and 2017.

The company has consistently reported a net income following the loss of $5 million in 2013, which was driven by a write-off of internally developed software. Net income rose to $76 million in 2014 and reduced each year to $29 million in 2017. This sharp decrease in 2017 was due to inclement weather, including hail storms and water damage from frozen pipes. Inclement weather was partially responsible for the weakening of loss reserve redundancies in the last few years. This is reflected by the combined ratio, which spiked to 98% in 2017 after remaining around 90% for the previous three years. The company has begun implementing various loss-prevention strategies to mitigate these losses going forward.

The company saw an increase of 24% in gross premium written, 31% in net premium written, and 30% in premium earned over the past four years. The company has made significant moves to expand its business written both through the main Church Mutual business and the newly acquired and formed subsidiaries.

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.

VII. SUMMARY OF EXAMINATION RESULTS

Compliance with Prior Examination Report Recommendations

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

Summary of Current Examination Results

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

Custodial Agreement

Custodial agreements of Wisconsin-domiciled companies must comply with guidelines contained in the NAIC Financial Condition Examiners Handbook. The review of the custodial agreement with BMO Harris Bank, N.A. revealed that the agreement does not include all of the suggested provisions as contained in the NAIC Financial Condition Examiners Handbook to ensure proper controls and safeguards. Specifically, the agreement does not include a requirement to provide regulators and officers of the company with appropriate affidavits and a requirement to maintain adequate insurance protection. It is recommended that the company amend its custodial agreement to include the guideline provisions contained in the NAIC Financial Condition Examiners Handbook.

Report on Executive Compensation

The State of Wisconsin requires that each Wisconsin-domiciled insurer file a supplement to the annual statement titled "Report on Executive Compensation" pursuant to s. 611.63 (4), Wis. Stat. This report should include annual compensation to each director and each officer and member of the executive management of the insurer whose compensation exceeds specified amounts. Compensation reported should include all gross direct and indirect remuneration paid and accrued during the report year for the benefit of an individual director, officer, or manager, and shall include wages, stock grants, gains from the exercise of stock options, and all other forms of personal compensation (including employer-paid health, life and any other premiums). The Report on Executive Compensation filed for 2017 did not include employer-paid health insurance and employer contributions to health savings accounts. It is recommended that the company comply with s. 611.63 (4), Wis. Stat., by reporting all compensation received by officers, executive management, and directors in accordance with the instructions stated on the Report on Executive Compensation.

VIII. CONCLUSION

Church Mutual Insurance Company was formed in 1897 to provide insurance to churches, church societies, and pastors of specific denominations as the Wisconsin Church Mutual Fire Insurance Association. It has been renamed multiple times over the years and has expanded its offerings, eventually providing coverages to churches, church societies, and clergies of any religion or denomination. Beginning in 2015, the company has expanded through the acquisition of two companies and the formation of two companies to enter into new markets and product lines in non-religious but similar segments, such as schools, social services, and not-for-profit organizations.

Admitted assets grew 28% during the last four years, reaching $1.7 billion at December 31, 2017, as compared to $1.4 billion at December 31, 2013. Liabilities grew 17% during the last four years, reaching $1.0 billion at December 31, 2017, as compared to $885 million at December 31, 2013. The company's surplus increased steadily over the four-year period, increasing 49% from $473 million to $704 million.

Premium growth was fairly steady over the four-year examination period, with net premium earned 30% higher in 2017 over 2013. The company has posted overall positive financial results over the examination period, with a net income reported in all four years of the examination, following a minor net loss in 2013.

The examination resulted in two recommendations. There were no adjustments to surplus and no reclassifications of account balances.

IX. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 32 - Custodial Agreements—It is recommended that the company amend its custodial agreement to include the guideline provisions contained in the NAIC Financial Condition Examiners Handbook.

2. Page 32 - Report on Executive Compensation—It is recommended that the company comply with s. 611.63 (4), Wis. Stat., by reporting all compensation received by officers, executive management, and directors in accordance with the instructions stated on the Report on Executive Compensation.

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
Abdel Kondoh	Insurance Financial Examiner
Xiaozhou Ye	Insurance Financial Examiner
Ana Careaga	ACL Specialist
David Jensen, CFE	IT Specialist
Jerry DeArmond, CFE	Reserve Specialist

Respectfully submitted,

Diana M. Havitz
Examiner-in-Charge