Report

of the

Examination of

Green County Mutual Insurance Company

Monroe Wisconsin

As of December 31, 2012

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State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

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December 9, 2013

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, 2012, of the affairs and financial condition of:

GREEN COUNTY MUTUAL INSURANCE COMPANY
Monroe, Wisconsin

and the following report thereon is respectfully submitted:

I. INTRODUCTION

The previous examination of Green County 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, 2012, 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.

The company was organized as a town mutual insurance company in February 1873 under the provisions of the then existing Wisconsin Statutes. The original name of the company was Mutual Insurance Company of the Town of Jefferson. Subsequent amendments to the company's articles and bylaws changed the company's name to that presently used.

During the period under examination, there was one amendment to the articles of incorporation and no amendments to the bylaws. Members of the board of directors voted to expand the company's writing territory to the counties of Crawford, Richland and Sauk.

The company is currently licensed to write property, including windstorm and hail, and nonproperty insurance customarily provided with fire and extended coverage authorized by statute or rule. The company is currently licensed to write business in the following counties:

Green	Dane
Iowa	Grant
Lafayette	Jefferson
Rock	Walworth
Richland	Crawford
Sauk	

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 also charges a policy fee equal to $30 on all policies except for farmowner's policies which carry a $40 fee. The company also charges an installment fee of $3 per payment if the insured chooses not to pay on an annual basis.

Business of the company is acquired through 25 agents, four of whom are directors of the company. The company classifies its agents into two categories: captive agents who are either directors or employees of the company or sell only the company's policies and non-captive or independent agents who sell policies for other insurance companies as well. Agents are presently compensated for their services as follows:

Type of Policy	Compensation
Captive agents – all policies	10%
Non-captive agents – all policies	15%

Captive agents have authority to adjust losses up to $10,000. Losses in excess of this amount are adjusted by two directors and an outside adjuster is used on claims of more than $50,000. Agents receive $25 for each loss adjusted plus the current IRS mileage reimbursement rate for travel allowance.

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
Daniel Mowers	Loan Underwriter	Monroe, WI	2016
Craig Shager*	Retired Farmer	Monroe, WI	2015
Larry Bohnert	Engineer	Monroe, WI	2015
Tim Olmstead*	Maintenance	Argyle, WI	2015
Robert Bump*	Retired Farmer	Albany, WI	2014
Roger Markham	Retired Farmer	Juda, WI	2014
Michael McCullough	Active Farmer	Juda, WI	2014
Larry Klassy	Retired Farmer	New Glarus, WI	2013
Steven Ruegsegger*	Active Farmer	New Glarus, WI	2013

* Directors who are also agents are identified with an asterisk.

Members of the board currently receive $75 for each meeting attended plus the current IRS mileage reimbursement rate 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	2012 Compensation
Robert Bump	President	$15,659
Steven Ruegsegger	Vice-President	52,399
Craig Shager	Secretary	88,773
Larry Bohnert	Treasurer	3,039

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	Investment Committee
Craig Shager, Chair	Craig Shager, Chair
Robert Bump	Larry Bohnert
Roger Markham	Robert Bump

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
2012	$879,304	2,208	$ 159,647	$2,281,878	$1,503,721
2011	831,982	2,184	(209,352)	2,369,430	1,429,605
2010	778,314	2,156	6,834	2,488,104	1,646,131
2009	761,786	2,081	(7,852)	2,414,806	1,585,169
2008	855,219	2,090	95,037	2,385,362	1,558,078
2007	866,656	2,135	210,391	2,541,975	1,550,005

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
2012	$1,540,226	$867,769	$1,503,721	58%	102%
2011	1,535,000	841,884	1,429,605	59	107
2010	1,522,345	807,996	1,646,131	49	92
2009	1,469,385	763,559	1,585,169	48	93
2008	1,478,021	821,791	1,558,078	53	95
2007	1,501,777	841,417	1,550,005	54	97

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
2012	$484,874	$350,549	$879,304	55%	40%	96%
2011	794,933	357,635	831,982	96	42	138
2010	498,313	362,282	778,314	64	45	109
2009	455,074	330,553	761,786	60	43	103
2008	519,529	344,417	855,219	61	42	103
2007	412,985	338,972	866,656	48	40	88

During the period of the examination, the company's reported surplus decreased slightly by $46,284 or a 3% decline. The decline is attributed mainly to small underwriting losses experienced in accident years 2008 to 2010 and a particularly unfavorable 2011 loss year with underwriting losses reported of $320,586. In general, 2011 was a bad weather year with windstorms and hail hitting the area causing the large increase in losses. The company reported an underwriting gain of $43,881 for the year ended December 31, 2012, which marked the only year with favorable loss results in the five-year period under review. The company has increased the number of policyholders from 2,135 in 2007 to 2,208 in 2012.

II. REINSURANCE

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

Reinsurer:	Wisconsin Reinsurance Corporation
Effective date:	January 1, 2013
Termination provisions:	Either party may terminate on any January 1st by giving at least 90 days' written notice to the other party

The coverages provided under this treaty are summarized as follows:

1. Type of contract: Class AX1 Casualty Excess of Loss

   Lines reinsured: All casualty or liability business

   Company's retention: $8,000 in respect to each and every loss occurrence plus a $1,000 deductible where raw milk contamination occurs on an insured dairy farm if there is no dairy quality assurance program

   Coverage: 100% of each and every loss occurrence, including loss adjustment expense, in excess of the company's retention subject to the maximum policy limits of:

   a. $1,000,000 per occurrence, single limit or combined for bodily injury and property damage liability

   b. $1,000,000 split limits, in any combination of bodily injury and property damage liability

   c. $25,000 for medical payments, per person; $25,000 per accident

   Reinsurance premium: 50% of the premium written

2. Type of contract: Class B1 First Surplus

   Lines reinsured: All property business

   Company's retention: If net retention is $500,000 or more on a risk, the company may cede on a pro rata basis, and the reinsurer is obligated to accept up to $800,000. If net retention is $500,000 or less on a risk, the company may cede on a pro rata basis, and the reinsurer is obligated to accept up to 50% of such risk.

	Coverage:	Pro rata share of each and every loss, including loss adjustment expense, corresponding to the amount of the risk ceded
	Reinsurance premium:	The pro rata portion of all premiums, fees and assessments charged by the company corresponding to the amount of each risk ceded
	Ceding commission:	Commission allowance: 15% of the premium paid Profit commission: 15% of the net profit
3.	Type of contract:	Class C-1 Excess of Loss First Layer
	Lines reinsured:	All property business
	Company's retention:	$60,000 per loss per occurrence
	Coverage:	$90,000 excess of retention including loss adjusting expenses
	Reinsurance premium:	The rate in effect shall be determined by taking the sum of the four years' losses incurred (paid plus outstanding) by the reinsurer divided by the total of the net premiums written for the same period, multiplied by the factor 100/80ths. Current rate is 13.11%. Minimum rate: 6% Maximum rate: 20% Annual deposit premium: $137,077
4.	Type of contract:	Class C-2 Second Excess of Loss Second Layer
	Lines reinsured:	All property business
	Company's retention:	$150,000 per loss per occurrence
	Coverage:	$350,000 excess of retention including loss adjustment expenses for each and every loss occurrence
	Reinsurance premium:	5.75% of net premiums written, subject to an annual deposit premium of $60,121
5.	Type of contract:	Class D/E-1 First Aggregate Stop Loss Reinsurance
	Lines reinsured:	All business written by the company
	Company's retention:	65% of net premium written
	Coverage:	100% of annual aggregate losses, including loss adjustment expenses, exceeding 65% of net premium written and in excess of the company's retention

	Reinsurance premium:	7% of net premiums written Minimum rate: 7% Maximum rate: 15% Annual deposit premium: $82,991 Estimated attachment point: $770,632
6.	Type of contract:	Class D/E-2 Second Aggregate Stop Loss Reinsurance
	Lines reinsured:	All business written by the company
	Company's retention:	130% of net premium written
	Coverage:	100% of annual aggregate losses, including loss adjustment expenses, exceeding 130% of net premium written and in excess of the company's retention
	Reinsurance premium:	The premium for each annual period shall be determined by multiplying the rate by the company's net premium written Rate: 3% Annual deposit premium: $35,568 Attachment point: 130%

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, 2012, 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."

Green County Mutual Insurance Company
Statement of Assets and Liabilities
As of December 31, 2012

Assets	Ledger	Nonledger	Not Admitted	Net Admitted
Cash on hand	$ 100	$ 0	$ 0	$ 100
Cash in checking	23,906	0	0	23,906
Cash deposited at interest	574,021	0	0	574,021
Bonds	743,760	0	0	743,760
Stocks and mutual fund investments	512,577	0	0	512,577
Real estate	168,382	0	0	168,382
Premiums, agents' balances and installments:				
In course of collection	37,238	0	0	37,238
Deferred and not yet due	178,954	0	0	178,954
Investment income accrued		11,362	0	11,362
Reinsurance recoverable on paid losses and LAE	2,503	0	0	2,503
Electronic data processing equipment	6,235	0	0	6,235
Fire dues recoverable	756	0	0	756
Other expense-related assets:				
Reinsurance commission receivable	22,084	0	0	22,084
Furniture and fixtures	221	0	221	0
Totals	$2,270,737	$11,362	$221	$2,281,878

Liabilities and Surplus

Net unpaid losses	$ 91,729
Unpaid loss adjustment expenses	3,353
Unearned premiums	659,687
Amounts withheld for the account of others	2,202
Payroll taxes payable (employer's portion)	1,129
Other liabilities:	
Expense-related:	
Accrued property taxes	4,193
Nonexpense-related:	
Premiums received in advance	15,864
Total liabilities	778,157
Policyholders' surplus	1,503,721
Total Liabilities and Surplus	$2,281,878

Green County Mutual Insurance Company
Statement of Operations
For the Year 2012

Net premiums and assessments earned		$879,304
Deduct:		
Net losses incurred	$446,486	
Net loss adjustment expenses incurred	38,388	
Net other underwriting expenses incurred	350,549	
Total losses and expenses incurred		835,423
Net underwriting gain (loss)		43,881
Net investment income:		
Net investment income earned	43,443	
Net realized capital gains (losses)	383	
Total investment gain (loss)		43,826
Other income (expense):		
Policy fees	62,330	
Installment fees	6,378	
Miscellaneous	599	
Total other income		69,307
Net income (loss) before federal income taxes		157,014
Federal income taxes incurred		(2,633)
Net Income (Loss)		$159,647

Green County Mutual Insurance Company
Reconciliation and Analysis of Surplus as Regards Policyholders
For the Five-Year Period Ending December 31, 2012

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:

	2012	2011	2010	2009	2008
Surplus, beginning of year	$1,429,605	$1,646,131	$1,585,169	$1,558,078	$1,550,005
Net income	159,647	(209,352)	6,834	(7,852)	95,037
Net unrealized capital gain or (loss)	(86,043)	(7,685)	42,815	23,097	(93,833)
Change in nonadmitted assets	512	511	11,313	11,846	6,869
Surplus, End of Year	$1,503,721	$1,429,605	$1,646,131	$1,585,169	$1,558,078

Reconciliation of Policyholders' Surplus

A reconciliation of the policyholders' surplus as reported by the company in its filed annual statement and as determined by the examination is detailed in the following schedule:

Policyholders' surplus per December 31, 2007, annual statement			$1,503,721
Item	**Increase**	**Decrease**	
Unpaid losses	$37,272	$0	
Total	$37,272	$0	
Increase to surplus per examination			37,272
Policyholders' Surplus per Examination			$1,540,993

Examination Reclassifications

	Debit	**Credit**
Reinsurance premium recoverable	$22,084	$
Reinsurance premium receivable		22,084
Total reclassifications	$22,084	$22,084

IV. SUMMARY OF EXAMINATION RESULTS

Compliance with Prior Examination Report Recommendations

Comments and recommendations contained in the last examination report and the action taken on them by the company are as follows:

1. Corporate Records—It is recommended that the company execute formal written agreements with all of its agents that include language indicating that the agent will represent the company's interests "in good faith."

   Action—Compliance.

2. Underwriting—It is again recommended that the company comply with s. Ins 6.72, Wis. Adm. Code, regarding maximum risk retention.

   Action—Compliance.

3. Claims Adjusting—It is again recommended that the board annually appoint an adjusting committee pursuant to s. 612.13 (4), Wis. Stat., or note annually in its minutes that the entire board is appointed to act as the adjusting committee.

   Action—Compliance.

4. Investment Rule Compliance—It is recommended that the company make no additional Type 2 investments until the company meets the required amount of Type 1 investments pursuant to s. Ins 6.20 (6) (c), Wis. Adm. Code.

   Action—Compliance.

5. Book Value of Bonds—It is recommended that the company not invest in reverse convertible bonds or other financial futures or options until such time as the company has an approved plan pursuant to s. Ins 6.20 (8) (o), Wis. Adm. Code.

   Action—Compliance.

6. Unpaid Loss Adjustment Expenses—It is recommended that the company more accurately estimate its loss adjustment expenses and document the calculation of the estimate.

   Action—Compliance.

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	$ 250,000, with a $2,500 deductible
Insurance agents and brokers liability (other than Craig Shager)	$1,000,000 limit claim and aggregate $2,500 deductible per claim
Insurance agents and brokers liability (Craig Shager)	$1,000,000 limit claim and aggregate $2,500 deductible per claim
Combined professional and directors and officers liability	$1,000,000 professional $1,000,000 directors and officers $1,000,000 aggregate limit $10,000 deductible per claim
Business owners special property	$1,000,000 liability and medical expenses $5,000 per person medical expense $2,000,000 aggregate limit for liability $224,720 building with $1,000 deductible Contents $75,000 with $1,000 deductible
Worker's compensation:	
Employee injury	Statutory
Employee liability:	
Each accident	$100,000
Each employee	$100,000
Policy limit	$500,000

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.

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, 2012.

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 computers 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 is also able to back up their data electronically on Pinsoft's servers.

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. The examination determined that the level of documentation contained in the manuals was reasonable.

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	$1,078,157
2.	Liabilities plus 33% of gross premiums written	1,286,431
3.	Liabilities plus 50% of net premiums written	1,212,041
4.	Amount required (greater of 1, 2, or 3)	1,286,431
5.	Amount of Type 1 investments as of 12/31/2012	1,374,447
6.	Excess or (deficiency)	$ 88,016

The company has sufficient Type 1 investments.

The company has been granted permission to hold 35% of net admitted assets in common stocks and like securities. It has also been granted permission to hold Wisconsin Reinsurance common stock and NAMIC stock.

ASSETS

Cash and Invested Cash **$598,027**

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

Cash in company's office	$ 100
Cash deposited in banks—checking accounts	23,906
Cash deposited in banks at interest	574,021
Total	$598,027

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 a local 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 11 deposits in 10 depositories. 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 2012 totaled $10,372 and was verified to company cash records. Rates of interest earned on cash deposits ranged from 1.3% to 4.0%. Accrued interest on cash deposits totaled $3,554 at year-end.

Book Value of Bonds **$743,760**

The above asset consists of the aggregate book value of bonds held by the company as of December 31, 2012. Bonds owned by the company are held in a custodial account with Community Bank and Trust of Sheboygan, Wisconsin.

Bonds were traced from the company’s investment advisor’s, Cubic Financial Advisors, LLC (Cubic), investment statement to a direct confirmation from Community Bank and Trust to the annual statement. Bond prospectuses for many, though not all, of the company’s bonds were inspected by the examiners. Bond purchases and sales for the period under examination were checked to investment advisor and custodial statements.

In December of 2008 the company hired Cubic as its investment advisor and rapidly expanded its bond portfolio. The company's investment contracts were reviewed as part of the examination. It was determined that, at the time, the company contracted with Waukesha State Bank as a custodian, who in turn contracted with AMS Advisors, LLC, as an investment advisor on behalf of the company. The AMS Advisors, LLC, contract was taken over by Peregrine Diversified Investment Services Corp. effective May 1, 2011. According to Cubic, Waukesha State Bank hired Fidelity Investments as a sub-custodian for the company's assets, and Cubic is an investment advisory representative for Peregrine Diversified Investment Services Corp. However, by the time of this examination, the company had established a custodial arrangement with Community Bank and Trust.

Under the new investment advisor, the company began to invest in a number of securities issued by banks and other financial corporations which were designed and packaged as debt securities but with floating rates that appeared to aid the issuer in hedging its own risks or those of clients. In these cases the floating rates cause the cash flows of the securities to be unpredictable because the interest payments are based on specified variables such as market or consumer indexes, rates, or other variables. The floating rates can be subject to wide fluctuation based on changing economic conditions or other circumstances.

The volume of floating rate corporate bonds issued in the United States fluctuates from year to year. From 1996 to 2012, the percentage of corporate bonds that have been issued on a floating rate basis has ranged from 4.8% to 48.9% of corporate bond issuance, with the average for the period amounting to 25% of corporate bond issuance. The following table was drawn from data made available to the public from the Web site of the Securities Industry and Financial Markets Association, with the source attributed to Thomson Reuters.

U.S. Corporate Bond Issuance* 1996 – 2012
Callable and Non-Callable by Coupon Type
(Billions in U.S. Dollars)

	Callable		Non-Callable		Total %
	Fixed Rate	**Floating Rate**	**Fixed Rate**	**Floating Rate**	**Floating Rate**
1996	$ 79.1	$ 4.3	$ 200.3	$ 60.0	18.7%
1997	131.4	5.9	232.9	95.9	21.8
1998	240.5	7.8	228.0	134.4	23.3
1999	211.8	5.0	248.8	163.7	26.8
2000	196.6	16.1	166.1	208.6	38.3
2001	400.3	7.5	232.7	135.5	18.4
2002	283.4	2.7	187.8	162.8	26.0
2003	360.4	23.1	177.4	215.0	30.7
2004	238.6	31.7	207.8	302.6	42.8
2005	233.5	59.0	152.3	307.9	48.7
2006	348.3	88.0	192.4	430.2	48.9
2007	420.9	99.0	251.6	356.0	40.4
2008	352.4	57.7	185.7	111.4	23.9
2009	618.3	5.6	236.2	41.1	5.2
2010	575.2	7.8	413.2	66.7	7.0
2011	582.9	8.2	306.4	114.6	12.1
2012	882.9	13.5	412.0	51.5	4.8
Totals	$6,156.5	$442.9	$4,031.6	$2,957.9	25.0%

* Includes all non-convertible corporate debt, medium-term notes, and Yankee bonds, but excludes all issues with maturities of one year or less and CDs.

Town mutual insurers are considered restricted insurers under s. 620.03 (1), Wis. Stat., and s. Ins 6.20 (6) (a), Wis. Adm. Code, and, as such, are subject to limitations over their investments. This office has imposed and may impose additional special investment restrictions for town mutual insurers if the investment creates additional risk which may compromise their financial position and ability to pay policyholders' claims in full and in a timely manner. Furthermore, pursuant to s. 620.04 (1), Wis. Stat., this office may impose reasonable and temporary restrictions upon the investments of an individual insurer, including prohibition or divestment of a particular asset. This office concludes that the company's investment strategy presents an unreasonable amount of risk to the company and is not appropriate for a town mutual insurance company at this time. The basis for this conclusion and the company's action required by this office is described below.

The examination reviewed the prospectuses of the bonds owned by the company and found multiple instances of corporate bonds with variable rates of interest tied to various complex indices. Examples of these bonds include instances where the interest rate was dependent on:

- year over year changes in the Consumer Price Index
- the difference between the 30-year and the 2-year constant maturity swap rate (CMS Spread)
- certain combinations of the 6-month USD LIBOR and the S&P 500 Index

For instance, for each interest payment on the JP Morgan Chase & Co. security, interest accrues only on days where the 6-month USD LIBOR is less than or equal to 6.5% and the closing S&P 500 Index is greater than 790. This means that the company will only receive interest payments on the security for the days when both conditions are met making it difficult to project future investment performance. The Principal® Life CoreNote® issued through the Principal Life Income Fundings Trust 2005-8 has a floating rate with a minimum of 0%. The interest calculation is based on the percentage change in the Consumer Price Index (CPI) over a 12-month period occurring 3 months prior to the interest reset date; this figure is then multiplied by a spread multiplier to arrive at the final interest rate for the note. In 2009 the CPI inflation adjustment, calculated in accordance with the formula described above, was negative for 7 consecutive months. During these months no interest payments would have been accrued on the security. The absence of interest payments would likely have a negative impact on the security's market value. Furthermore, during prolonged economic conditions that unfavorably affect interest payments of the security, the security may trade, if at all, at a significant discount to its purchase price. Some of the prospectuses disclosed a potential risk that the market for trading these securities may not necessarily exist or be maintained in the future.

The risk that the market for trading these securities may not necessarily exist or be maintained in the future is substantially exacerbated by the very small size of the variable rate corporate debt issues that the company has purchased. Large issues tend to trade more frequently than small issues and investors may have greater awareness about a larger issue because it is widely held and analyzed. An issue size of $250 million represents an approximate lower boundary for a bond issue to attract significant institutional interest when liquidity is a concern. For example, the minimum par amount outstanding for a bond issue's inclusion in the

Barclays U.S. Corporate Index is $250 million. The minimum par amount outstanding for a bond issue's inclusion in the Barclays U.S. Floating Rate Note Index is $300 million. Between the years 2009 to 2012 the company purchased and holds 16 variable rate corporate debt securities. The par amounts outstanding for these securities ranged from $4,500,000 to $550,000,000.

The objectives of investment regulations as defined in s. 620.01, Wis. Stat., include, in part, to provide for the safety of principal and, to the extent consistent therewith, maximum yield and growth, and to provide sufficient liquidity to avoid the necessity in reasonably expected circumstances for selling assets at undue sacrifice. The interest rate on some of these bonds could drop to 0% for a prolonged period of time, which could significantly impair the value of the bond and prevent the company from earning a reasonable return on their investment. There also may not be a trading market for the security rendering the investment illiquid. In the event that the company may need to dispose of the bond in order to pay claims, there may be no readily available market. It is recommended that if the company invests in any variable rate corporate debt security such security must have the following characteristics:

a. the reference for setting the interest rate must be a U.S. Dollar London Interbank Offered Rate of a single specified duration; and
b. the interest rate must have a floor in excess of zero percent; and
c. the total outstanding principal amount of the security at the time of issuance must equal or exceed $250 million.

For the avoidance of any doubt, in investing in any variable rate corporate debt security, the company:

a. may assume that any U.S. Dollar London Interbank Offered Rate will exceed zero percent; and
b. may invest in a security that specifies some increment of interest in excess of a U.S. Dollar London Interbank Offered Rate of a single specified duration; and
c. may invest in a security that is leveraged relative to a U.S. Dollar London Interbank Offered Rate of a single specified duration, provided that there is no basis point reduction in the index provided by the interest rate formula (for example, 125% of the 3-month U.S. Dollar London Interbank Offered Rate is acceptable while 125% of the 3-month U.S. Dollar London Interbank Offered Rate minus 0.10% is not acceptable); and
d. may not invest in a security that specifies some increment of interest less than a U.S. Dollar London Interbank Offered Rate of a single specified duration, unless such increment is expressed as a

percentage of the index (for example, 80% of the 3-month U.S. Dollar London Interbank Offered Rate is acceptable while the 3-month U.S. Dollar London Interbank Offered Rate minus 0.10% is not acceptable).

It is further recommended that the company divest itself of any variable rate corporate debt security that does not meet the foregoing standards and provide this office with evidence of the disposal within 60 days of the adoption of this report.

It is the responsibility of the board of directors to supervise and direct all investments acquired and held by the company pursuant to s. 6.20 (6) (h), Wis. Adm. Code. This section requires the company's investment strategies and practices are commensurate with its technical and administrative capabilities and expertise with regard to investments. Investments whose interest rate payment is based on complex conditions tied to the results of multiple indices fall outside the area of expertise of town mutual insurers. Further, the board may not delegate its responsibility for overseeing the company's investments to a third-party contractor pursuant to ss. 612.16 and 611.67, Wis. Stat. The company's board is responsible to oversee the company's investments and the actions of the investment advisor and must understand the details of its investments.

The review of the company's bonds also disclosed the following issues:

1. The company did not have a prospectus for many of its investments in debt securities. It is recommended that the company maintain prospectuses for its current investments.

2. It is recommended that the board of directors modify its written investment policy to specify, in accordance with the instructions included in this report, acceptable characteristics of the investments in variable rate corporate debt securities and provide this office with a copy of the revised investment policy within 60 days of the adoption of this report.

Interest received during 2012 on bonds amounted to $32,743 and was traced to cash receipts records. Accrued interest of $5,894 at December 31, 2012, was checked and allowed as a nonledger asset.

Stocks and Mutual Fund Investments **$512,577**

The above asset consists of the aggregate market value of stocks and mutual funds held by the company as of December 31, 2012. Stocks owned by the company, with the exception of shares of three corporations' stocks, are held in a custodial account with Community Bank and Trust. The company owns shares of stock of Alliant Energy Corporation, NAMICO and Wisconsin Reinsurance Corporation that are kept in a vault with the company's depository, Woodford Bank.

Stock certificates were physically examined by the examiners. Stock and mutual fund purchases and sales for the period under examination were checked to brokers' invoices and advices. The company's investment in stocks and mutual funds was in conformance with Wisconsin Statutes and the rules of the Commissioner of Insurance as regards investments made by town mutual insurers.

Dividends received during 2012 on stocks and mutual funds amounted to $18,898 and were traced to cash receipts records. Accrued dividends of $1,914 at December 31, 2012, were checked and allowed as a nonledger asset.

Book Value of Real Estate **$168,382**

The above amount represents the company's investment in real estate, net of depreciation, as of December 31, 2012. The company's real estate holdings consisted of the company's main office building located at 326 6th Street, Monroe, Wisconsin. The building was purchased in March 2011 with proper approval from this office pursuant to s. Ins 6.20 (6) (d), Wis. Adm. Code. The company has leased part of the building to a small insurance agency for an annual rental fee of $4,800 which is included in investment income.

The required documents supporting the validity of this asset were reviewed and were in order. Adequate hazard insurance was carried on the real estate and contents as noted under the caption "Fidelity Bond and Other Insurance." The company's investment in real estate and related items was in conformance with the Wisconsin Statutes and the rules of the Commissioner of Insurance as regards investments made by town mutual insurers. Real estate depreciation is calculated using the straight-line method over a 39-year service period.

Premiums, Agents' Balances in Course of Collection **$37,238**

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 **$178,954**

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 **$11,362**

Interest due and accrued on the various assets of the company at December 31, 2012, consists of the following:

Cash at interest	$ 3,554
Bonds	5,894
Stocks and mutual funds	1,914
Total	$11,362

Reinsurance Recoverable on Paid Losses and LAE **$2,503**

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, 2012. A review of year-end accountings with the reinsurer verified the above asset.

Electronic Data Processing Equipment **$6,235**

The above balance consists of computer hardware and operating system software, net of depreciation as of December 31, 2012. A review of receipts and other documentation verified the balance. Non-operating system software was properly nonadmitted.

Fire Dues Recoverable **$756**

This asset represents the amount overpaid to the state of Wisconsin for 2012 fire dues. The examiners reviewed the company's fire department dues calculation and found this asset to be correctly calculated. The actual amount paid was verified to the cash disbursement records.

Reinsurance Premium Recoverable **$22,084**

The asset represents the amount of reinsurance premium that the company had overpaid as of December 31, 2012. The examiners verified the balance from the reinsurer's year-end statements. The company reported a balance for this line item of $0, while the examination resulted in a balance of $22,084. During the course of the exam it was noted the company erroneously reported this balance on the line reserved for Reinsurance Commissions Receivable. This exam reclassification is reflected in the section of this report captioned "Examination Reclassification." It is recommended that the company classify its Reinsurance Premium Recoverable in accordance with the Town Mutual Annual Statement Instructions.

Reinsurance Commission Receivable **$0**

The above asset represents the amount of reinsurance commissions that the company expected to receive as of December 31, 2012. The examination noted that this asset has a balance of $0 and that the company incorrectly reported Reinsurance Premium Recoverable on this line. This exam reclassification is reflected in the section of this report captioned "Examination Reclassification."

LIABILITIES AND SURPLUS

Net Unpaid Losses **$91,729**

This liability represents losses incurred on or prior to December 31, 2012, 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, 2012, with incurred dates in 2012 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	$201,971	$56,222	$145,749
Less: Reinsurance recoverable on unpaid losses	110,242	3,765	106,477
Net Unpaid Losses	$ 91,729	$52,457	$ 39,272

The net difference is reflected in Section III of this report under the heading "Reconciliation of Policyholders' Surplus."

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 **$3,353**

This liability represents the company's estimate of amounts necessary to settle losses which were incurred prior to December 31, 2012, but which remained unpaid as of year-end. The methodology used by the company in establishing this liability is by taking actual incurred but unpaid loss adjustment expenses and adding management’s best estimate of unknown loss adjustment expenses for the current accident year.

The examiners' analysis of expenses incurred in the current year related to the settlement of prior year losses, as well as estimates of amounts necessary to settle any prior losses remaining unpaid at the examination date, determined this liability to be adequately stated.

Unearned Premiums **$659,687**

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.

Amounts Withheld for the Account of Others **$2,202**

This liability represents employee payroll deductions in the possession of the company at December 31, 2012. Supporting records and subsequent cash disbursements verified this item.

Payroll Taxes Payable **$1,129**

This liability represents the company's portion of payroll taxes incurred prior to December 31, 2012, which had not yet been paid. Supporting records and subsequent cash disbursements verified this item.

Accrued Property Taxes **$4,193**

This liability represents the company’s unpaid expense for state and local property taxes assessed on the company’s home office building for the year-ended December 31, 2012. The examiners reviewed the company’s real estate tax bill and subsequent payments to the city treasurer to verify this balance.

Premiums Received in Advance **$15,864**

This liability represents the total premiums received prior to year-end for policies with effective dates after December 31, 2012. The examiners reviewed 2012 premium and cash receipt records to verify the accuracy of this liability.

V. CONCLUSION

The company was organized as a town mutual insurance company in February 1873 under the provisions of the then existing Wisconsin Statutes. The original name of the company was Mutual Insurance Company of the Town of Jefferson. Subsequent amendments to the company's articles and bylaws changed the company's name to that presently used.

During the period of the examination the company’s reported surplus decreased slightly by $46,284 or a 3% decline. The decline is attributed mainly to small underwriting losses experienced in accident years 2008 to 2010 and a particularly unfavorable 2011 loss year with underwriting losses reported of $320,586. In general, 2011 was a bad weather year with windstorms and hail hitting the area causing the large increase in losses. The company reported an underwriting gain of $43,881 for the year-ended December 31, 2012, which marked the only year with favorable loss results in the five-year period under review. The company has increased the number of policyholders from 2,135 in 2007 to 2,208 in 2012.

Adjustments to Policyholder’s Surplus made as a result of this examination totaled $39,272, thereby increasing reported surplus to $1,542,993. The company complied with all prior examination recommendations. The current examination resulted in five recommendations as summarized in the following section.

VI. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 25 - Book Value of Bonds—It is recommended that if the company invests in any variable rate corporate debt security such security must have the following characteristics:
   a. the reference for setting the interest rate must be a U.S. Dollar London Interbank Offered Rate of a single specified duration; and
   b. the interest rate must have a floor in excess of zero percent; and
   c. the total outstanding principal amount of the security at the time of issuance must equal or exceed $250 million.

   For the avoidance of any doubt, in investing in any variable rate corporate debt security, the company:
   a. may assume that any U.S. Dollar London Interbank Offered Rate will exceed zero percent; and
   b. may invest in a security that specifies some increment of interest in excess of a U.S. Dollar London Interbank Offered Rate of a single specified duration; and
   c. may invest in a security that is leveraged relative to a U.S. Dollar London Interbank Offered Rate of a single specified duration, provided that there is no basis point reduction in the index provided by the interest rate formula (for example, 125% of the 3-month U.S. Dollar London Interbank Offered Rate is acceptable while 125% of the 3-month U.S. Dollar London Interbank Offered Rate minus 0.10% is not acceptable); and
   d. may not invest in a security that specifies some increment of interest less than a U.S. Dollar London Interbank Offered Rate of a single specified duration, unless such increment is expressed as a percentage of the index (for example, 80% of the 3-month U.S. Dollar London Interbank Offered Rate is acceptable while the 3-month U.S. Dollar London Interbank Offered Rate minus 0.10% is not acceptable).

2. Page 26 - Book Value of Bonds—It is further recommended that the company divest itself of any variable rate corporate debt security that does not meet the foregoing standards and provide this office with evidence of the disposal within 60 days of the adoption of this report.

3. Page 26 - Book Value of Bonds—It is recommended that the company maintain prospectuses for its current investments.

4. Page 26 - Book Value of Bonds—It is recommended that the board of directors modify its written investment policy to specify, in accordance with the instructions included in this report, acceptable characteristics of the investments in variable rate corporate debt securities and provide this office with a copy of the revised investment policy within 60 days of the adoption of this report.

5. Page 29 - Reinsurance Premium Recoverable—It is recommended that the company classify its Reinsurance Premium Recoverable in accordance with the Town Mutual Annual Statement Instructions.

VII. ACKNOWLEDGMENT

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

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

Respectfully submitted,

Raymond Kangogo
Examiner-in-Charge