Report

of the

Examination of

Homesite Insurance Company of the Midwest

Madison, Wisconsin

As of December 31, 2016

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State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

Scott Walker, *Governor*
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April 30, 2018

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

Commissioner:

In accordance with your instructions, a compliance examination has been made of the affairs and financial condition of:

HOMESITE INSURANCE COMPANY OF THE MIDWEST
Madison, Wisconsin

and this report is respectfully submitted.

I. INTRODUCTION

The previous examination of Homesite Insurance Company of the Midwest (HICMW or the company) was conducted in 2012 as of December 31, 2011, by the North Dakota Insurance Department. The current examination covered the intervening period ending December 31, 2016, and included a review of such 2017 and 2018 transactions as deemed necessary to complete the examination.

The examination of the company was conducted concurrently with the examination of affiliated companies domiciled in California, Georgia, Illinois, New York, and Texas, with Wisconsin acting in the capacity as the lead state for the coordinated examination. Representatives of the California Department of Insurance assisted with certain key functional activities, 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 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. 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.

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 gross loss and loss adjustment expense reserves. The company has no net loss reserves because it cedes 100% of its direct and assumed writings to its parent, American Family Mutual Insurance Company (AFMIC), through a Quota Share Reinsurance Agreement. The actuary also reviewed the net loss and loss adjustment expense reserves of AFMIC, which includes the assumed loss and loss adjustment expense reserves from HICMW. The actuary's results were reported to the examiner-in-charge. As deemed appropriate, reference is made in this report to the actuary's conclusion.

II. HISTORY AND PLAN OF OPERATION

The company was organized on October 9, 1969, as Dawson Hail Insurance Company. On July 14, 1995, Crop Growers Corporation, an indirect subsidiary of Fireman's Fund Insurance Company, acquired all of its outstanding common stock. On May 5, 1999, Crop Growers Corporation sold the common stock of Dawson Hail Insurance Company to Homesite Group Incorporated (HGI), a Delaware corporation. Simultaneously, the current name of the company was adopted. On December 29, 2006, HGI entered into a stock purchase agreement with Alleghany Insurance Holdings LLC (Alleghany), under which Alleghany acquired 85,714 shares of common stock of HGI for a purchase price of $120 million. Following the closing of the transaction on December 29, 2006, the shareholders owning 10% or more of HGI were as follows:

- Alleghany Insurance Holdings LLC held 85,714 shares of common stock, representing 32.9% of the total of all shares outstanding.
- Morgan Stanley Capital Partners III, L.P., held 67,752.87 shares of common stock, representing 17.6% of the total of all shares outstanding.
- HDC investors, L.P., held 45,869.4 shares of common stock, representing 17.6% of the total of all shares outstanding.

On December 31, 2013, AFMIC, through its wholly owned subsidiary, AmFam, Inc., acquired 100% of the ownership in HGI interest for $666 million in cash, including direct costs of the acquisition. After the transaction, the company's ultimate parent was AFMIC. The company redomiciled from North Dakota to Wisconsin in September 2016.

AFMIC and its subsidiaries are collectively known as the "American Family Group." HICMW shares common management with Homesite Indemnity Company (HIC), Homesite Insurance Company (HCT), Homesite Insurance Company of California (HICCA), Homesite Insurance Company of Florida (HICFL), Homesite Insurance Company of Illinois (HICIL), Homesite Insurance Company of Georgia (HICGA), Homesite Insurance Company of New York (HICONY), and Homesite Lloyd's of Texas (HLT). Collectively, these nine insurance companies are referred to as the "Homesite Group."

Formation of Mutual Holding Company

On May 23, 2016, the board of directors of the company's ultimate parent, AFMIC, passed a resolution to reorganize AFMIC into a mutual holding structure, pursuant to s. 644.07 (2), Wis. Stat. As part of the proposed reorganization, AFMIC would form two new holding company entities: a mutual holding company, American Family Insurance Mutual Holding Company (AFIMHC), and a wholly owned subsidiary of AFIMHC, AmFam Holdings, Inc. (AmFam Holdings). AFMIC would then convert to a stock insurance company under the new name American Family Mutual Insurance Company, S.I. (AFMICSI). The proposed reorganization was subject to the approval of the Office of the Commissioner of Insurance (OCI) and policyholders as required by ss. 644.07 (7) and 644 (8), Wis. Stat.

On June 8, 2016, AFMIC submitted documents to OCI proposing the restructuring. OCI reviewed the proposed transaction and crafted a Stipulation and Order governing the proposed mutual holding company. The Stipulation and Order was accepted by AFMIC as part of OCI's approval of the transaction, which was granted on December 6, 2016. Policyholders voted to approve the transaction on December 7, 2016.

Effective January 1, 2017, AFMIC's corporate structure was reorganized. As part of the reorganization, AFMIC converted to a stock insurer, changed its name to AFMICSI and issued three million shares of $1 par common stock to AmFam Holdings. AmFam Holdings issued 100% of its voting securities to AFIMHC, which became the ultimate controlling party of the American Family Group. Membership interest in AFMIC was replaced with membership interest in AFIMHC. Policyholders of American Family Insurance Company (AFIC) and American Standard Insurance Company of Ohio (ASICO) were also granted membership rights in AFIMHC. There are currently no plans for AFMICSI to sell stock publicly. However, if this were to happen at a future date, AmFam Holdings would be required to hold at least 51% of the stock of AFMICSI under s. 644.04 (3) (b), Wis. Stat.

The company is currently licensed in 36 states and the District of Columbia and is actively writing in 27 states and the District of Columbia. In 2016, the company wrote direct premium in the following states:

Maryland	$ 50,961,170	15.2%
Ohio	35,926,836	10.7
Michigan	34,606,808	10.3
Washington	28,777,930	8.6
Massachusetts	26,528,059	7.9
All others	158,862,007	47.3
Total	$335,662,810	100.0%

The company markets homeowners multiple peril products, which includes home, renters, and condo insurance. The company also writes a small amount of flood insurance through the National Flood Insurance Program (NFIP). The company markets its products nationally through its website, call centers, and most significantly, its partnerships with large financial institutions. Its largest partners are GEICO and Progressive.

The following table is a summary of the net insurance premiums written by the company in 2016. The growth of the company is discussed in the "Financial Data" section of this report.

Line of Business	Direct Premium	Reinsurance Assumed	Reinsurance Ceded	Net Premium
Federal flood	$ 5,102,324	$ 0	$ 5,102,324	$0
Homeowners multiple peril	330,496,865	714,611,879	1,045,108,744	0
Workers' compensation	63,621	0	63,621	0
Total All Lines	$335,662,810	$714,611,879	$1,045,108,744	$0

III. MANAGEMENT AND CONTROL

Board of Directors

The board of directors consists of five members who are elected annually, each of whom is an officer of HICMW. As inside directors, they receive no additional compensation for serving on the board. Officers are elected at the annual board meetings and are to hold those positions for a term of one year and until their successors are elected and qualified.

As of the date of this report the board of directors consists of the following persons:

Name and Residence	Principal Occupation	Term Expires
Fabian J. Fondriest Concord, MA	Chief Executive Officer Homesite Group	2019
Andrew A. McElwee, Jr. New London, NH	President and Chief Operating Officer Homesite Group	2019
Michael D. Lorion Millbury, MA	Treasurer and Chief Financial Officer Homesite Group	2019
Anthony M. Scavongelli Duxbury, MA	Secretary and General Counsel Homesite Group	2019
James T. Morahan, Jr. Foxboro, MA	Vice President, Finance and Administration Homesite Group	2019

Officers of the Company

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

Name	Office	2017 Compensation*
Fabian J. Fondriest	Chief Executive Officer	$2,438,717
Michael D. Lorion	Chief Financial Officer, Treasurer	541,888
Andrew A. McElwee, Jr.	Chief Operating Officer, President	1,259,640
Anthony M. Scavongelli	Executive Vice President, General Council, Secretary	893,312
Peter B. Settel	Executive Vice President, Information Technology	891,278
David M. Pfahler, Jr.	Senior Vice President, Underwriting	426,969
Christopher L. Conti	Executive Vice President, Operations and Human Resources	695,631
M. Grace Hanson**	Senior Vice President, Claims	460,806

*Compensation is the portion of the individual's total compensation that is allocated to HICMW; the allocation is based on premium written within the Homesite Group.

**Left company in 2018.

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:

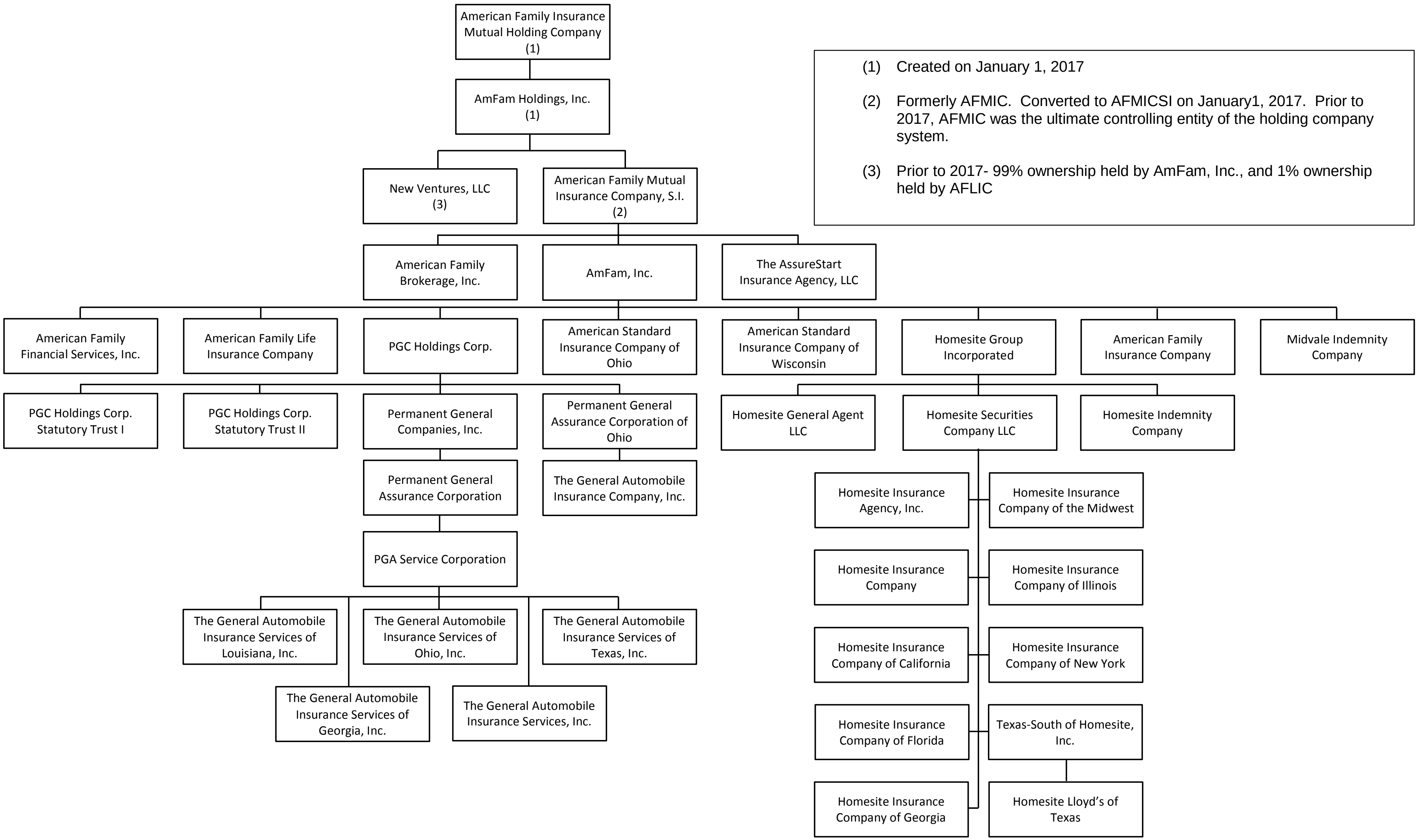
Investment Committee
Michael D. Lorion Chair
Fabian J. Fondriest
James T. Morahan, Jr.
Anthony M. Scavongelli

AFMIC's committees were also responsible for oversight of HICMW. Subsequent to the creation of AFIMHC, all of the AFMIC committees were disbanded and then reestablished under the bylaws of AFIMHC.

IV. AFFILIATED COMPANIES

Homesite Insurance Company of the Midwest is a member of a holding company system. The organizational chart on the next page depicts the relationships among the affiliates in the group subsequent to the corporate reorganization that occurred January 1, 2017. A brief description of the significant affiliates follows the organizational chart.

Organizational Chart
As of January 1, 2017



(1) Created on January 1, 2017

(2) Formerly AFMIC. Converted to AFMICSI on January1, 2017. Prior to 2017, AFMIC was the ultimate controlling entity of the holding company system.

(3) Prior to 2017- 99% ownership held by AmFam, Inc., and 1% ownership held by AFLIC

American Family Mutual Insurance Company

American Family Mutual Insurance Company was organized in 1927. Prior to the creation of AFIMHC, AFMIC was the ultimate parent of the American Family Enterprise. Effective January 1, 2017, in conjunction with the formation of a mutual holding company, AFMIC converted to stock insurer and changed its name to American Family Mutual Insurance Company, S.I.

The majority of AFMIC's direct writings consist of auto and homeowner's, but it also writes commercial lines. Direct business is produced through a captive agency force in 19 states. In 2016, AFMIC had various 100% quota share agreements in effect with certain property and casualty subsidiaries, which resulted in AFMIC assuming nearly all business from the Homesite Group, AFIC, American Standard Insurance Company of Wisconsin (ASICW), ASICO, and Midvale Indemnity Company (Midvale). Effective January 1, 2017, AFMICSI entered into a separate 100% quota share agreement which resulted in AFMICSI assuming all of the business written by the Permanent General Group (a description of the Permanent General Group is on page 15).

As of December 31, 2016, statutory-basis audited financial statements for AFMIC reported assets of $16.2 billion, liabilities of $9.3 billion, and policyholders' surplus of $6.9 billion. Operations for 2016 produced a net income of $212 million.

American Family Insurance Mutual Holding Company

American Family Insurance Mutual Holding Company was incorporated on January 1, 2017, under the provisions of ch. 644, Wis. Stat. AFIMHC is the ultimate controlling entity of AFMICSI. Membership of AFIMHC consists of policyholders of AFMICSI, AFIC, and ASICO.

AmFam Holdings, Inc.

AmFam Holdings, Inc., was incorporated on January 1, 2017, under the provisions of ch. 180, Wis. Stat. AmFam Holdings is an intermediate holding company wholly owned by AFIMHC. AmFam Holdings holds 100% of the membership interests of AFMICSI and New Ventures, LLC (New Ventures).

AmFam, Inc.

AmFam, Inc., was incorporated in 1981 to serve as a downstream holding company for the American Family Group. AmFam, Inc., is the direct parent of the following insurance companies: AFIC, ASICO, ASICW, Midvale, and American Family Life Insurance Company (AFLIC). AmFam, Inc., is also the direct parent of HGI and PGC Holdings Corp. (PGC Holdings). As of December 31, 2016, the audited GAAP consolidated financial statements for AmFam, Inc., reported assets of $10.2 billion, liabilities of $7.4 billion, and equity of $2.8 billion. Operations for 2016 produced a net income of $31.2 million.

The AssureStart Insurance Agency, LLC

The AssureStart Insurance Agency, LLC (AssureStart), was acquired by AFMIC in 2013. AssureStart is a general agent that, in conjunction with its affiliates, sells the small commercial lines and personal auto products of its affiliates. As of December 31, 2016, unaudited GAAP financial data for AssureStart reported assets of $1.5 million, liabilities of $14.0 thousand, and equity of $1.5 million. Operations for 2016 produced a net income of $11.1 thousand.

Homesite Group Incorporated

Homesite Group Incorporated is a Delaware corporation organized on April 2, 1997. HGI was acquired by AFMIC through AmFam, Inc., on December 31, 2013, for $666 million in cash, including direct costs of the acquisition. The purpose of the HGI acquisition was to broaden AFMIC's distribution channels and to expand its geographic footprint. HGI is an intermediate holding company which directly or indirectly owns the nine insurance companies in the Homesite Group. All the insurance companies in the Homesite Group write homeowners multiple peril products and have the same distribution network as HICMW. As of December 31, 2016, unaudited GAAP financial data for HGI reported assets of $783 million, liabilities of $148 million, and equity of $635 million. Operations for 2016 produced a net loss of $1.8 million.

Homesite Securities Company LLC

Homesite Securities Company LLC (Homesite Securities) is a Delaware corporation that was organized on November 20, 1998. Homesite Securities is an intermediate holding company and is the direct parent of Homesite Insurance Agency, Inc. (HIA), HICMW, HCT, HICCA, HICFL, HICIL, HICGA, HICONY, and Texas-South of Homesite, Inc., which serves as the Attorney-in-Fact for HLT. As of December 31, 2016, unaudited GAAP financial data for Homesite Securities reported assets of $235 million, liabilities of $6, and equity of $235 million. Operations for 2016 produced a net loss of $11.

Homesite Insurance Agency, Inc.

Homesite Insurance Agency, Inc., is an insurance agency organized under the laws of Massachusetts on January 15, 2003. HIA is used to place ineligible risks with other carriers who will write those risks. In addition, HIA facilitates the sale and service of homeowner business through its agency agreements with companies in the Homesite Group and potentially with other carriers. As of December 31, 2016, unaudited GAAP financial data for HIA reported assets of $7.1 million, liabilities of $1.5 million, and equity of $5.5 million. Operations for 2016 produced a net income of $960 thousand.

Homesite General Agent LLC

Homesite General Agent LLC (HGA) is a Delaware corporation organized on March 10, 2014. HGA is a managing general agency used primarily in Florida to underwrite business on behalf of HCT. HGA can effectively manage exposure and risk through its underwriting ability, which is specifically granted in the MGA agreement. As of December 31, 2016, unaudited GAAP financial data for HGA reported assets of $1.0 million, liabilities of $1.3 thousand, and equity of $1.0 million. Operations for 2016 produced a net loss of $661 thousand.

Homesite Indemnity Company

Homesite Indemnity Company was organized on July 23, 1948. HIC is a wholly-owned subsidiary of HGI and is licensed in 14 states and has direct premium written of $83.1 million in ten states. HIC redomiciled from Kansas to Wisconsin in September 2016. As of December 31, 2016, statutory-basis audited financial statements for HIC reported assets of $51.6 million, liabilities of $11.4 million, and surplus of $40.2 million. Operations for 2016 produced a net income of $362 thousand.

Homesite Insurance Company

Homesite Insurance Company was organized on April 3, 1985. The company is licensed in 44 states and the District of Columbia, and writes business in 28 states. With $378 million of direct premium written, HCT writes more direct business than any other insurer in the Homesite Group. HCT redomiciled from Connecticut to Wisconsin in September 2016. As of December 31, 2016, statutory-basis audited financial statements for HCT reported assets of $147 million, liabilities of $60.4 million, and surplus of $87.0 million. Operations for 2016 produced a net income of $1.4 million.

Homesite Insurance Company of California

Homesite Insurance Company of California was organized on February 26, 1999. The company is only licensed in California and has direct premium of $87.2 million. As of December 31, 2016, statutory-basis audited financial statements for HICCA reported assets of $53.8 million, liabilities of $16.7 million, and surplus of $37.0 million. Operations for 2016 produced a net income of $339 thousand.

Homesite Insurance Company of Florida

Homesite Insurance Company of Florida was organized on December 29, 2000. The company is licensed in Florida and Illinois, but only writes in Illinois, and has direct premium of $13.6 million. The company redomiciled from Florida to Illinois in October of 2013. As of December 31, 2016, statutory-basis audited financial statements for HICFL reported assets of $14.1 million, liabilities of $3.1million, and surplus of $11.1 million. Operations for 2016 produced a net income of $59.2 thousand.

Homesite Insurance Company of Illinois

Homesite Insurance Company of Illinois was organized on January 10, 2000. The company is only licensed in Illinois and has direct premium of $17.5 million. As of December 31, 2016, statutory-basis audited financial statements for HICIL reported assets of $11.9 million, liabilities of $2.5 million, and surplus of $9.5 million. Operations for 2016 produced a net income of $274 thousand.

Homesite Insurance Company of Georgia

Homesite Insurance Company of Georgia was organized on November 1, 1998. The company is licensed in Georgia and Pennsylvania, but only writes in Georgia, and has direct premium of $36.1 million. As of December 31, 2016, statutory-basis audited financial statements for HICGA reported assets of $26.8 million, liabilities of $5.0 million, and surplus of $21.8 million. Operations for 2016 produced a net income of $44.5 thousand.

Homesite Insurance Company of New York

Homesite Insurance Company of New York was organized on January 25, 1999. The company is only licensed in New York. As of year-end, direct written premium was $57.4 million. HICONY is the only insurer in the Homesite Group to retain any losses, as it cedes 80% of its business to HICMW and retains the other 20%. As of December 31, 2016, statutory-basis audited financial statements for HICONY reported assets of $33.8, liabilities of $15.7 million, and surplus of $18.2 million. Operations for 2016 produced a net income of $1.7 million.

Homesite Lloyd's of Texas

Homesite Lloyd's of Texas was organized on March 28, 2002, as a Texas Lloyd's company. Texas-South of Homesite, Inc., acts as HLT's attorney-in-fact. HLT is only licensed in Texas and has gross written premium of $80.0 million. HLT assumes approximately $75 million homeowners/fire business from Farmers Mutual Insurance Company, an unaffiliated Texas domiciled company. The $5 million of direct premium encompasses flood and other liability-occurrence. Flood business is ceded to the NFIP and homeowners/fire and other liability-occurrence is ceded to HICMW. As of December 31, 2016, statutory-basis audited financial statements for HLT reported assets of $28.9 million, liabilities of $13.0 million, and surplus of $15.9 million. Operations for 2016 produced a net income of $218 thousand.

PGC Holdings Corp.

PGC Holdings Corp. is a Delaware corporation that was acquired by AFMIC through AmFam, Inc., on December 31, 2012, for $241 million in cash. PGC Holdings is the direct parent of Permanent General Assurance Corporation of Ohio (PGACO), which also owns The General Automobile Insurance Company, Inc. (GAIC). PGC Holdings is also the direct parent of

Permanent General Companies, Inc., an intermediate holding company which owns Permanent General Assurance Corporation (PGAC). PGAC, PGACO, and GAIC are collectively known as the “Permanent General Group.”

The Permanent General Group specializes in private passenger non-standard automobile insurance, primarily to consumers interested in acquiring an insurance policy to comply with state-level minimum insurance requirements. The Permanent General Group writes in 46 states and the District of Columbia and relies heavily on television advertising to promote the purchase of products through their internet distribution channel and call centers. Effective August 31, 2017, the Permanent General Group redomiciled from Ohio to Wisconsin. As of December 31, 2016, combined statutory-basis audited financial statements for the Permanent General Group reported assets of $710 million, liabilities of $485 million, and equity of $225 million. Operations for 2016 produced a net loss of $30.5 million.

Effective January 1, 2017, the Permanent General Group entered into a 100% quota share with AFMICSI. PGACO and GAIC cede 100% to PGAC, which in turn, retrocedes 100% of its direct and assumed business to AFMICSI.

Midvale Indemnity Company

Midvale Indemnity Company was incorporated in 1970. It was acquired by AFMIC in 2012 under the name of Lumberman’s Casualty Insurance Company (LCIC) for $15.3 million. LCIC changed its name to Midvale Indemnity Company in 2013. Midvale is currently licensed in all 50 states and the District of Columbia and writes commercial products including general liability and property insurance sold directly to small businesses online through AssureStart, an affiliated general agent. Midvale primarily cedes its direct writings to AFMIC under a 100% Quota Share Reinsurance Agreement. Midvale redomiciled from Illinois to Wisconsin effective November 16, 2017. As of December 31, 2016, statutory-basis audited financial statements for Midvale reported assets of $12.1 million, liabilities of ($1.0) million, and surplus of $13.1 million. Operations for 2016 produced a net income of $370 thousand, consisting solely of investment income.

Agreements with Affiliates

The company has agreements with affiliates regarding cost sharing, tax allocation, and agency services as detailed below. Additionally, the company has affiliated reinsurance agreements which are described in section V of the report titled “Reinsurance.”

Intercompany Services Agreement

Effective July 26, 1999, the company entered into an Intercompany Services Agreement with HGI. The agreement was amended in 2008 and 2014. The most recent terms of the agreement call for HGI to provide facilities and services to HICMW. Such services include personnel, management services, and facilities support. All services provided by HGI are reimbursed on an actual cost basis. Settlements are to be made monthly between the parties to the agreement.

Intercompany Services and Cost Allocation Agreement

Effective January 1, 2014, HGI entered into an Amended and Restated Intercompany Services and Cost Allocation Agreement with AFMIC and PGC Holdings. Effective April 1, 2018, HGI and PGC Holdings were added to an already existing Amended and Restated Intercompany Services and Cost Allocation Agreement between AFMICSI, ASICO, AFLIC, ASICW, AFIC, American Family Brokerage, Inc. (AFBI), American Family Financial Services, Inc. (AFFS), Midvale, New Ventures, AmFam, Inc., AFIMHC, AmFam Holdings, AssureStart, American Family Dreams Foundation, Inc., SHGI Corp., Moonrise, Inc., and Networked Insights, Inc. According to the terms of the most recent agreement, each party may provide goods, third party services, and management services to other parties of the agreement. Each service recipient shall be charged with its allocable share of the service provider’s actual costs incurred. Charges incurred are to be settled quarterly on a net basis, with the settlement date being no later than the 30th day following the end of each calendar quarter.

Tax Allocation Agreement

The company is party to a tax allocation agreement with HGI and other Homesite affiliates. HGI is also party to a separate tax allocation agreement with AFMIC and certain other affiliates. Therefore, the company is included in AFMIC’s federal consolidated tax filing.

Effective January 1, 2013, the company entered into an Amended and Restated Consolidated Federal Income Tax Liability Allocation Agreement with HGI, HIC, HICCA, HCT, HICFL, HICIL, HICONY, HLT, HGA, HIA, Homesite Securities, and Texas-South of Homesite, Inc. The agreement was amended on January 1, 2014, to include HICGA. The agreement calls for each party to file its federal income tax return on a consolidated basis with each of the other parties. The method of allocation among the companies is based upon the separate return calculation with current credit for net losses. Intercompany tax balances are settled quarterly after the tax filing is made.

Effective April 29, 2002, AFMIC entered into a Restated Tax Allocation agreement with AFLIC, ASICW, ASICO, AFIC, AFFS, AFBI, and AmFam, Inc. The agreement was later amended multiple times to add Midvale, PGC Holdings, HGI, AFIMHC, AmFam Holdings, SHGI Corp., Moonrise, Inc., and Network Insights, Inc. HGI was added to the agreement, effective January 1, 2014.

The agreement provides the basis for computation and the method of settlement of federal income tax payments and refunds within the American Family Group. Under this agreement, AFMIC prepares and files a consolidated federal income tax return that, directly or indirectly, includes all affiliated companies in the holding company group. Final settlement is due within 30 days of the filing of the consolidated federal tax return.

Agency Agreement

Effective December 17, 2004, the company entered into an Agency Agreement with HIA. Under the Agency Agreement, the company appoints HIA as its agent. HIA is granted the authority to solicit potential customers on behalf of the company and to facilitate the quote and application process for the purpose of selling homeowners insurance policies. HIA is not authorized to bind coverage on behalf of the company. Compensation for HIA's services is limited to 18% of net written premium.

V. REINSURANCE

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

Pooling Agreement

Prior to the American Family acquisition of the Homesite Group, HICMW participated in an intercompany pooling agreement, effective May 5, 2005, in which HICMW assumed 100% of the Homesite Group's direct and assumed written premiums and losses and then retroceded, net of third party reinsurance, pooled net written premiums, losses, and unearned premiums to members of the pool. Flood insurance premiums ceded to the NFIP were not included in the pool. The table below includes the pool participants and percentages in effect at December 31, 2013.

Homesite Insurance Company of the Midwest	32%
Homesite Insurance Company	26
Homesite Indemnity Company	12
Homesite Insurance Company of California	11
Homesite Insurance Company of New York	5
Homesite Insurance Company of Georgia	4
Homesite Insurance Company of Florida	4
Homesite Lloyd's of Texas	3
Homesite Insurance Company of Illinois	3
Total	100%

The pool was terminated effective January 1, 2014.

Affiliated Assumed Business

Effective January 1, 2014, HICMW entered into eight separate loss portfolio transfer and 100% quota share agreements with each insurer in the Homesite Group. Under the agreements, HICMW assumes 100% of each company's in-force, new and renewal direct and assumed business. Effective January 1, 2016, the quota share agreement between HICMW and HICONY was amended to reduce HICMW's quota share to 80%. The amendment only applies to business written by HICONY on or after January 1, 2016.

Affiliated Ceded Business

Effective January 1, 2014, HICMW entered into a loss portfolio transfer and 100% quota share agreement with AFMIC. Under the agreement, AFMIC assumes 100% of HICMW's in-force, new and renewal direct and assumed business. For the loss portfolio transfer portion of the ceded business, the company paid premium of $80.6 million, which was the undiscounted loss and loss adjustment expense reserve carried on the company's book as of the effective date of the agreement.

Catastrophe Reinsurance

AFMIC purchases property catastrophe and aggregate stop loss reinsurance coverage for itself and on behalf of all its P&C subsidiaries, including Midvale, Homesite Group, and Permanent General Group. Contracts are placed on a rolling two- or three- year period, which results in only a portion of the contract placement expiring each year. Depending on the contract, the company utilizes Aon Benfield or Guy Carpenter as its reinsurance intermediary. Contracts are placed through a group of high-quality domestic and foreign reinsurers.

As of January 2017, the group's catastrophe excess of loss reinsurance has three layers, with placements between 85.775% and 95% and with coverage of $1.5 billion in excess of $300 million retention (see contract 1). One caveat is the first layer does not provide coverage for Named Storms (i.e., hurricanes). Named Storms are covered by a separate treaty which provides 95% coverage of $350 million in excess of $300 million retention (see contract 2).

The group's 2017 aggregate stop loss reinsurance consists of a single year contract (see contract 3) and a multiyear contract covering 2017-2018 (see contract 4). The 2017 program provides 95% coverage of $350 million in excess of aggregate losses of $1.2 billion. Named Storms occurring in coastal states are not covered by the aggregate stop loss contracts.

1. Type: Property Catastrophe Excess of Loss

   Term: January 1, 2017 to January 1, 2020

Scope: All business classified by the company as fire, allied lines, farmowners (property perils only), homeowners including mobile home and boat owners (property perils only), business owners (property perils only), commercial package (property perils only), and automobile physical damage with certain named exclusions.

Note: First layer excludes coverage for losses arising out of any Named Storm. (Named Storms are covered under contract #2.)

Retention and Limit:

	First Layer (Retention will be $300,000,000)		Second Layer (Retention will be $650,000,000)		Third Layer (Retention will be $1,000,000,000)	
Contract Year	Reinsurers' Per Occurrence Limit	Reinsurer's Annual Aggregate Limit	Reinsurers' Per Occurrence Limit	Reinsurer's Annual Aggregate Limit	Reinsurers' Per Occurrence Limit	Reinsurer's Annual Aggregate Limit
First (2017)	$350,000,000 part of $350,000,000	$700,000,000 part of $700,000,000	$350,000,000 part of $350,000,000	$700,000,000 part of $700,000,000	$500,000,000 part of $500,000,000	$1,000,000,000 part of $1,000,000,000
Second (2018)	233,333,333 part of 350,000,000	466,666,666 part of 700,000,000	233,333,333 part of 350,000,000	466,666,666 part of 700,000,000	333,333,333 part of 500,000,000	666,666,666 part of 1,000,000,000
Third (2019)	116,666,667 part of 350,000,000	233,333,334 part of 700,000,000	116,666,667 part of 350,000,000	233,333,334 part of 700,000,000	166,666,667 part of 500,000,000	333,333,334 part of 1,000,000,000

Note: Since this is a rolling three-year contract, one third placement expires at the end of each year. New terms would then be negotiated each year for the expired portion of the contract resulting in the company having the desired overall placement.

Premium:

	First Layer			**Second Layer**			**Third Layer**		
Contract year	Annual Deposit Premium	Premium Rate	Annual Minimum Premium	Annual Deposit Premium	Premium Rate	Annual Minimum Premium	Annual Deposit Premium	Premium Rate	Annual Minimum Premium
First (2017)	$23,450,000	0.6095%	$18,760,000	$13,650,000	0.3548%	$10,920,000	$12,000,000	0.3119%	$9,600,000
Second (2018)	15,633,333	0.4063	12,506,667	9,100,000	0.2365	7,280,000	8,000,000	0.2079	6,400,000
Third (2019)	7,816,667	0.2032	6,253,333	4,550,000	0.1183	3,640,000	4,000,000	0.1040	3,200,000

Intermediary: Aon Benfield, Inc.

Termination: The company may terminate any reinsurer's participation hereon at any time by giving prior written notice to said reinsurer upon the happening of certain named circumstances.

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

	Participation Percentages		
Reinsurer	First Layer	Second Layer	Third Layer
Allied World Assurance Company, Ltd.	1.000%	1.000%	1.000%
Arch Reinsurance Ltd.	0.000	0.500	1.000

Argo Re Ltd.	0.000	1.500	1.500
Ariel Re Bda Limited For and on behalf of Ariel Syndicate No. 1910	1.250	2.000	2.000
Aspen Bermuda Limited	2.000	2.000	2.000
BGS Services (Bermuda) Limited For and on behalf of Lloyd's Syndicate No. 2987	0.500	1.000	1.000
Chubb Tempest Reinsurance Ltd.	1.000	1.500	0.500
DaVinci Reinsurance Ltd.	0.000	0.300	0.400
Endurance Specialty Insurance Ltd.	6.000	8.000	8.000
Everest Reinsurance Company	1.000	3.000	2.500
Fidelis Insurance Bermuda Limited	2.500	6.500	5.500
General Reinsurance Corporation	1.000	1.000	1.000
Hamilton Re, Ltd.	2.500	2.500	2.500
Hannover Rück SE	2.000	2.500	2.000
Hiscock Insurance Company (Bermuda) Limited	1.000	1.500	1.500
Humboldt Re Limited	1.000	1.000	1.000
Kelvin Re Limited	1.000	1.000	1.000
Länsförsäkringar Sak Försäkringsaktiebolag (publ)	0.000	0.000	0.200
Mapfre Re, Compañia De Reaseguros, S.A.	2.000	2.000	2.000
Markel Bermuda Limited	0.000	0.500	2.850
Munich Reinsurance America, Inc.*	0.500	3.000	0.000
Odyssey Reinsurance Company	0.000	5.000	10.000
Partner Reinsurance Company Ltd.	0.000	0.000	1.000
Qatar Reinsurance Company Limited	0.000	1.000	1.200
QBE Re (Europe) Limited, Bermuda Branch	1.000	1.000	1.000
QBE Reinsurance Corporation	1.000	1.000	1.000
R+V Versicherung AG	2.000	2.000	1.500
Renaissance Reinsurance Ltd.	0.000	0.450	0.600
Swiss Reinsurance America Corporation	25.000	6.500	0.000
Tokio Millennium Re AG (Bermuda Branch)	0.000	0.000	1.500
Transatlantic Reinsurance Company	1.000	1.000	1.000
Ascot Underwriting (Bermuda) Limited For and on behalf of American International Reinsurance Company, Ltd.	5.250	0.000	0.000
XL Bermuda Ltd	0.000	1.000	0.750
MS Amlin AG Bermuda Branch	1.500	0.750	0.750
Taiping Reinsurance Co. Ltd.	0.000	0.000	0.500
Lloyd's Underwriters and Companies	31.170	23.775	32.750
SCOR Global P&C SE, Paris, Zurich Branch	0.000	0.000	2.000
Total	94.170%	85.775%	95.000%

2. Type: Property Catastrophe Excess of Loss

Effective Date: Section A: January 1, 2017 to January 1, 2018
Section B: January 1, 2017 to January 1, 2019
Section C: January 1, 2017 to January 1, 2020

Scope: All business classified by the company as Property business, including Automobile Physical Damage, in force at the inception of the Contract, or written or renewed during the term of the Contract by or on behalf of the company, subject to the terms and conditions set forth in the Contract.

Retention: Company's retention is $300 million per occurrence

Coverage: $350 million in excess of $300 million, with an annual aggregate loss of $700 million per contract year.

Premium:

Contract year	Annual Deposit Premium	Premium Rate	Minimum Premium
Section A (2017-2018)	$13,125,000	0.8049%	$10,500,000
Section B (2017-2019)	TBD*	0.8049	TBD*
Section C (2017-2020)	TBD*	0.8049	TBD*

*The Annual Minimum Premium for the second and third contract year shall equal 80% of the Annual Deposit Premium for the same contract year. The Annual Deposit Premium shall equal the Premium Rate times the estimated Gross Net Earned Premium Income for the same contract year.

Intermediary: Guy Carpenter & Company, LLC

Termination: The company may terminate any reinsurer's participation hereon at any time by giving prior written notice to said reinsurer upon the happening of certain named circumstances.

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

	Participation Percentages		
Reinsurer	First Year	Second Year	Third Year
Arch Reinsurance Ltd.	1.251%	0.834%	0.417%
Argo Re Ltd.	0.999	0.666	0.333
Ariel Re Bda Limited For and on behalf of Lloyd's Syndicate No. 1910	1.248	0.832	0.416
Aspen Bermuda Limited	1.998	1.332	0.666
BGS Services (Bermuda) Limited For and on behalf of Lloyd's Syndicate No. 2987	0.999	0.666	0.333
China P&C Reinsurance Co. Ltd.	0.999	0.666	0.333
Chubb Tempest Reinsurance Ltd.	0.999	0.666	0.333
DaVinci Reinsurance Ltd.	0.501	0.334	0.167
Endurance Specialty Insurance Ltd.	4.200	2.800	1.400
Everest Reinsurance Company	9.750	6.500	3.250
Fidelis Insurance Bermuda Limited	6.000	4.000	2.000
Hamilton Re, Ltd.	2.490	1.660	0.830
Hannover Rück SE	1.998	1.332	0.666
Hiscox Insurance Company (Bermuda) Limited	0.750	0.500	0.250
Mapfre Re, Compañia De Reaseguros, S.A.	1.998	1.332	0.666
Markel Bermuda Limited	0.999	0.666	0.333
Munich Reinsurance America, Inc.	2.475	1.650	0.825
Odyssey Reinsurance Company	2.499	1.666	0.833
Partner Reinsurance Company Ltd.	1.980	1.320	0.660
Qatar Reinsurance Company Limited	2.142	1.428	0.714
QBE Reinsurance Corporation	0.999	0.666	0.333
R+V Versicherung AG	1.500	1.000	0.500
Renaissance Reinsurance Ltd.	1.500	1.000	0.500
Swiss Reinsurance America Corporation	4.500	3.000	1.500
Tokio Millennium Re AG (Bermuda Branch)	0.999	0.666	0.333
Transatlantic Reinsurance Company	0.501	0.334	0.167

Ascot Underwriting (Bermuda) Limited For and on behalf of American International Reinsurance Company, Ltd.	3.498	2.332	1.166
XL Bermuda Ltd	1.749	1.166	0.583
MS Amlin AG Bermuda Branch	0.999	0.666	0.333
Lloyd's Underwriters and Companies	23.979	15.986	7.993
Certain Insurance Companies On Whose Behalf This Agreement Has Been Signed*	6.501	4.334	2.167
SCOR Global P&C SE, Paris, Zurich Branch	2.001	1.334	0.667
Total	95.001%**	63.334%**	31.667%**

*Companies on the signing pages: Houston Casualty Company, Markel International Insurance Company Limited, Lancashire Insurance Company Limited.

**Since this is a rolling three-year contract, one third placement expires at the end of each year. New terms would then be negotiated for the following year resulting in the company having 95% placement during each contract year.

3. Type: Underlying Catastrophe Aggregate Stop Loss

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

Scope: All business and perils classified by the company as fire, allied lines, farmowners (property perils only), homeowners including mobile home and boat owners (property perils only), business owners (property perils only), commercial package (property perils only), and automobile physical damage with certain named exclusions. Excludes coverage for losses arising out of any Named Storm in any coastal state.

Retention: Company's retention is $1.2 billion

Coverage: $350 million in excess of $1.2 billion

Premium:

Deposit:	$ 40,250,000
Minimum:	32,200,000
Rate:	1.0511%

Intermediary: Aon Benfield, Inc.

Termination: The company may terminate any reinsurer's participation hereon at any time by giving prior written notice to said reinsurer upon the happening of certain named circumstances.

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

Reinsurer	Participation
Allianz Risk Transfer AG (Bermuda Branch)	3.3300%
Arch Reinsurance Ltd.	2.0000
BGS Services (Bermuda) Limited for and on behalf of Lloyd's Syndicate No. 2987	1.0000
China Property & Casualty Reinsurance Company Limited	1.0000
DaVinci Reinsurance Ltd.	0.2000
Hamilton Re, Ltd.	1.0000

Hiscox Insurance Company (Bermuda) Limited	6.0000
Hiscox Insurance Company (Bermuda) Limited	5.0000*
Hiscox Re ILS Ltd.	5.0000*
R+V Versicherung AG	3.0000
Renaissance Reinsurance Ltd.	0.3000
Ascot Underwriting (Bermuda) Limited for and on behalf of American International Reinsurance Company, Ltd.	1.2500
MS Amlin AG Bermuda Branch	2.6250
General Insurance Corporation of India	1.4345
Houston Casualty Company	1.3000
Markel International Insurance Company Limited	1.5000
Lancashire Insurance Company Limited	1.0000
Various Lloyd's Syndicates	23.6500
Total	55.5895%

*Hiscox Insurance Company (Bermuda) Limited participates in two separate placements. One placement is at 6% and the other placement is split with Hiscox Re ILS Ltd. For the split placement, Hiscox Re ILS Ltd. provides coverage of $150 million in excess of $1.2 billion and Hiscox Insurance Company (Bermuda) Limited provides coverage of $200 million in excess of $1.35 billion. Both agreements are placed at 5%.

4. Type: Underlying Catastrophe Aggregate Stop Loss

Effective Date: January 1, 2017 to January 1, 2019
January 1, 2017 to January 1, 2018

Scope: All business and perils classified by the company as fire, allied lines, farmowners (property perils only), homeowners including mobile home and boat owners (property perils only), business owners (property perils only), commercial package (property perils only), and automobile physical damage with certain named exclusions. Excludes coverage for losses arising out of any Named Storm in any coastal state.

Retention: Company is liable for the first $1.2 billion of aggregate losses during each contract year

Coverage: Contract Year:
2017- $350 million part of $350 million in excess of $1.2 billion
2018- $175 million part of $350 million in excess of $1.2 billion

Rate and Premium:

Contract year	Annual Deposit Premium	Premium Rate	Minimum Premium
First (2017)	$40,250,000	1.0511%	$32,200,000
Second (2018)	20,125,000	0.5256	16,100,000

Intermediary: Aon Benfield, Inc.

Termination: The company may terminate any reinsurer’s participation hereon at any time by giving prior written notice to said reinsurer upon the happening of certain named circumstances.

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

Reinsurer	Participation
Chubb Tempest Reinsurance Ltd.	5.7142%
Collateralized Re Ltd.*	5.7142
Everest Reinsurance Company	2.5000
Fidelis Insurance Bermuda Limited	1.0000
Hannover Rück SE*	1.0000
Länsförsäkringar Sak Forsäkringsaktiebolag (publ)	0.1500
Mapfre Re, Compañia De Reaseguros, S.A.	2.0000
Munich Reinsurance America, Inc.*	3.0000
Qatar Reinsurance Company Limited	2.8571
Tokio Millennium Re AG (Bermuda Branch)	6.0000
Tokio Millennium Re AG, Bermuda Branch (Credit Suisse Business)	4.0000
MS Amlin AG Bermuda Branch	0.8750
Pioneer Underwriting Limited on behalf of Peak Reinsurance Company Limited	0.6000
Lloyd's Underwriters Per Signing Page	4.0000
Total	39.4105%

VI. FINANCIAL DATA

The following financial statements reflect the financial condition of the company as reported to the Commissioner of Insurance in the December 31, 2016, 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.

Homesite Insurance Company of the Midwest
Assets
As of December 31, 2016

	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	$105,571,181	$0	$105,571,181
Cash, cash equivalents, and short-term investments	29,770,543	0	29,770,543
Investment income due and accrued	569,282	0	569,282
Premiums and considerations:			
Uncollected premiums and agents' balances in course of collection	68,470,588	0	68,470,588
Deferred premiums, agents' balances, and installments booked but deferred and not yet due	25,562,481	0	25,562,481
Reinsurance:		0	
Amounts recoverable from reinsurers	118,940,773	0	118,940,773
Receivable from parent, subsidiaries, and affiliates	53,625,523	0	53,625,523
Write-ins for other than invested assets:			
Miscellaneous Write-in	35,417	0	35,417
Total Assets	$402,545,788	$0	$402,545,788

Homesite Insurance Company of the Midwest
Liabilities, Surplus, and Other Funds
As of December 31, 2016

Reinsurance payable on paid loss and loss adjustment expenses		$ 28,713,630
Commissions payable, contingent commissions, and other similar charges		3,563,623
Other expenses (excluding taxes, licenses, and fees)		165,746
Taxes, licenses, and fees (excluding federal and foreign income taxes)		2,773,614
Current federal and foreign income taxes		63,588
Net deferred tax liability		217,329
Advance premium		6,952,516
Ceded reinsurance premiums payable (net of ceding commissions)		256,543,261
Amounts withheld or retained by company for account of others		865,126
Provision for reinsurance		95,000
Write-ins for liabilities:		
Other amounts payable under reinsurance contracts		271
Total Liabilities		299,953,704
Common capital stock	$ 3,500,200	
Gross paid in and contributed surplus	64,591,916	
Unassigned funds (surplus)	34,499,968	
Surplus as Regards Policyholders		102,592,084
Total Liabilities and Surplus		$402,545,788

Homesite Insurance Company of the Midwest
Summary of Operations
For the Year 2016

Underwriting Income		
Premiums earned		$ 0
Deductions:		
Other underwriting expenses incurred	$ (342,723)	
Write-ins for underwriting deductions:		
State income tax expense	15,259	
Total underwriting deductions		(327,464)
Net underwriting gain (loss)		327,464
Investment Income		
Net investment income earned	1,265,826	
Net realized capital gains (losses)	48,722	
Net investment gain (loss)		1,314,548
Other Income		
Net income (loss) before federal and foreign income taxes		1,642,012
Federal and foreign income taxes incurred		509,471
Net Income		$1,132,541

Homesite Insurance Company of the Midwest
Cash Flow
For the Year 2016

Premiums collected net of reinsurance		$34,871,302
Net investment income		1,682,905
Total		36,554,207
Benefit- and loss-related payments	$19,890,500	
Commissions, expenses paid, and aggregate write-ins for deductions	(1,732,554)	
Federal and foreign income taxes paid (recovered)	425,326	
Total deductions		18,583,272
Net cash from operations		17,970,935
Proceeds from investments sold, matured, or repaid:		
Bonds	63,461,878	
Cost of investments acquired (long-term only):		
Bonds	64,046,073	
Net cash from investments		(584,195)
Cash from financing and miscellaneous sources:		
Other cash provided (applied)	(10,354,492)	
Net cash from financing and miscellaneous sources		(10,354,492)
Reconciliation:		
Net Change in Cash, Cash Equivalents, and Short-Term Investments		7,032,248
Cash, cash equivalents, and short-term investments:		
Beginning of year		22,738,295
End of Year		$29,770,543

Homesite Insurance Company of the Midwest
Compulsory and Security Surplus Calculation
December 31, 2016

Assets		$ 402,545,788
Less liabilities		299,953,704
Adjusted surplus		102,592,084
Annual premium:		
Lines other than accident and health	$ 0	
Factor	20%	
Compulsory surplus (subject to a minimum of $2 million)		2,000,000
Compulsory Surplus Excess (Deficit)		$100,592,084
Adjusted surplus (from above)		$102,592,084
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%)		2,800,000
Security Surplus Excess (Deficit)		$ 99,792,084

Homesite Insurance Company of the Midwest
Analysis of Surplus
For the 5-Year Period Ending December 31, 2016

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

	2016	2015	2014	2013	2012
Surplus, beginning of year	$100,714,322	$ 98,799,428	$95,401,219	$69,930,673	$71,670,976
Net income	1,132,541	1,594,485	22,742,786	19,230,759	(3,421,942)
Change in net unrealized capital gains/losses	(7,119)	7,119	(4,878,806)	3,154,184	475,076
Change in net deferred income tax	63,340	(680,945)	(13,332,536)	638,434	3,268,962
Change in nonadmitted assets	0	1,077,235	(1,077,235)	3,044,169	(2,014,399)
Change in provision for reinsurance	689,000	(83,000)	(56,000)	(597,000)	(48,000)
Capital changes:					
Transferred from surplus	0	0	490,200	0	0
Surplus adjustments:					
Transferred to capital	0	0	(490,200)	0	0
Surplus, End of Year	$102,592,084	$100,714,322	$98,799,428	$95,401,219	$69,930,673

Homesite Insurance Company of the Midwest
Insurance Regulatory Information System
For the Five-Year Period Ending December 31, 2016

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	2016	2015	2014	2013	2012
#1	Gross Premium to Surplus	1,024%*	827%	713%	663%	783%
#2	Net Premium to Surplus	0	0	0	152	201
#3	Change in Net Premiums Written	0	0	-157*	3	19
#4	Surplus Aid to Surplus	1	0	1	21*	17*
#5	Two-Year Overall Operating Ratio	0	0	102*	88	104*
#6	Investment Yield	1.0	0.7*	1.9*	1.9*	2.0*
#7	Gross Change in Surplus	2	2	4	36	-2
#8	Change in Adjusted Surplus	2	2	4	36*	-2
#9	Liabilities to Liquid Assets	202*	170*	148*	98	108*
#10	Agents' Balances to Surplus	67*	54*	42*	31	54*
#11	One-Year Reserve Development to Surplus	0	0	-61	-3	1
#12	Two-Year Reserve Development to Surplus	0	-61	-54	3	-8
#13	Estimated Current Reserve Deficiency to Surplus	0	0	0	2	-1

Ratio No. 1 measures the amount of gross premium written as a percentage of surplus. The company reported an exceptional ratio in 2016. As lead company in the Homesite Group's reinsurance program, HICMW assumes 100% of the group's premium excluding flood insurance and HICONY, with which the company has an 80% quota share with. While the company does have substantial gross premium written to surplus ratio, its net premium written to surplus ratio is 0% due to its 100% quota share with AFMIC.

Ratio No. 3 measures the company's change in net premiums written from the previous year. The company reported an exceptional ratio in 2014, as net premium written decreased from $145 million in 2013 to $(82.8) million in 2014. The company terminated its affiliated pooling agreement as of January 1, 2014, and then entered into a loss portfolio transfer and 100% quota share agreement with AFMIC, which resulted in negative premium written in 2014.

Ratio No. 4 measures the company's surplus aid compared to policyholder's surplus. The company reported an exceptional ratio in 2012 and 2013. During 2012 and 2013, when the company was lead participant in the intercompany pool, it obtained external reinsurance on behalf of the pool. The company utilized quota share agreements with unaffiliated reinsurers which provided for ceding commissions in addition to ceding commissions received under the intercompany pooling agreement. After the pool was terminated, and the company entered into a 100% quota share agreement with AFMIC, the company's surplus aid ratio decreased dramatically.

Ratio No. 5 measures the company's profitability over the previous two-year period. The company reported an exceptional ratio in 2012 and 2014. The exceptional ratio in 2012 was driven largely by significant CAT losses in 2011, particularly in the Midwest and Southeast. The company also experienced significant losses in 2012 as a result of Superstorm Sandy.

The exceptional ratio in 2014 is not meaningful because net premium written is used in the calculation of the two-year operating ratio, and the company had negative net premium in 2014, which distorted the company's two-year expense ratio. The single year operating ratio for 2013 and 2014 was 77.4% and 0%, respectively.

Ratio No. 6 measures the amount of the company's net investment income as a percentage of the average amount of cash and invested assets. The company reported an exceptional ratio each year under examination. The exceptional ratios are primarily due to the low interest rate environment. Also, beginning in 2015, the company's investment portfolio was comprised of U.S. Treasuries, short term investments, and cash, which further depressed the ratio.

Ratio No. 8 measures the improvement or deterioration of an insurer's financial condition during the year based on operational results. The company reported an exceptional ratio in 2013, as its surplus increased 36% from the prior year. The large increase was mostly due to positive underwriting results during the year, as the company reported a combined ratio of 81.4%. The company's strong underwriting performance was consistent with industry averages. In 2013, the company's pure net loss ratio was 50.6%, which was the same as the industry average for homeowners multiple peril business.

Ratio No. 9 measures the company's adjusted liabilities compared to liquid assets. For purposes of this calculation, total liabilities are adjusted to remove the amount of liabilities equal to deferred agents' balances, as these amounts are not considered liquid. Liquid assets include bonds, stocks, cash, receivable for securities, and investment income due and accrued. The company reported an exceptional ratio each year under examination with the exception of 2013. During examination period, this specific ratio has ranged from 98% in 2013 to 202% in 2016. The ratio increased considerably in 2014 when HICMW entered into a 100% quota share with AFMIC and the other Homesite Group companies. The new reinsurance structure resulted in a sizeable liability for ceded reinsurance premiums payable to AFMIC, which increased the company's ratio. Despite triggering the ratio, the company is not considered at risk for having a liquidity shortage.

Ratio No. 10 measures agents' balances in the course of collection in relation to policyholder's surplus. This ratio was remarkable each year under examination with the exception of 2013. Agents' balances in the course of collection includes premium that is currently due from policyholders, assumed reinsurance premiums due from affiliates, and one month of premium that has been collected by HGI still in need of remittance to the company. HGI is responsible for collecting premium for each Homesite company, after receiving a premium receipt; HGI remits the funds to the appropriate company on a monthly basis.

Growth of Homesite Insurance Company of the Midwest

Year	Admitted Assets	Liabilities	Surplus as Regards Policyholders	Net Income
2016	$402,545,788	$299,953,704	$102,592,084	$ 1,132,541
2015	339,602,598	238,888,276	100,714,322	1,594,485
2014	301,013,770	202,214,342	98,799,428	22,742,786
2013	314,580,279	219,179,060	95,401,219	19,230,759
2012	283,317,252	213,386,579	69,930,673	(3,421,942)
2011	241,829,652	170,158,676	71,670,976	(9,749,128)

Year	Gross Premium Written	Direct Premium Written	Net Premium Written	Loss and LAE Ratio	Expense Ratio	Combined Ratio
2016	$1,050,274,689	$335,662,810	$ 0	0.0%	0.0%	0.0%
2015	832,424,361	248,020,375	0	0.0	0.0	0.0
2014	704,725,060	209,839,140	(82,770,144)	0.0	0.0	0.0
2013	632,416,022	187,098,116	144,582,902	60.2	20.1	80.3
2012	547,793,168	167,995,913	140,559,123	82.4	19.6	102.0
2011	501,051,400	154,650,028	118,014,999	91.7	19.5	111.2

The company reported significant growth during the period under examination, as direct premium written and gross premium written increased 117% and 110%, respectively. With few exceptions, gross premium written reflects total premium written by the Homesite Group. In 2014, the company cancelled its pooling agreement and entered into separate loss portfolio transfer and 100% quota share agreements with each of the Homesite Group companies as well as AFMIC. These transactions resulted in a negative net premium written in 2014.

During the period under examination, assets and surplus have increased 66% and 43%, respectively. Surplus has remained relatively flat since 2014 because the company cedes all underwriting risks to AFMIC.

VII. SUMMARY OF EXAMINATION RESULTS

Compliance with Prior Examination Report Recommendations

There was one recommendation in the previous examination report. Comments and recommendations contained in the last examination report and actions taken by the company are as follows:

1. Information System and Controls—It is recommended that the company establish and implement appropriate control policies and procedures to strengthen its information system controls.

   Action—Compliance.

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.

Investments

Custodial agreements of Wisconsin-domiciled companies must comply with guidelines contained in the NAIC's Financial Condition Examiners Handbook. The review of the custodial agreement with The Northern Trust Company (Northern Trust) revealed that the agreement omitted one of the suggested clauses as contained in the NAIC's Financial Condition Examiners Handbook to ensure proper controls and safeguards. The following clause was missing from the Northern Trust agreement:

1. If the custodian agreement has been terminated or if 100% of the account assets in any one custody account have been withdrawn, the custodian shall provide written notification, within three business days of termination or withdrawal, to the insurer's domiciliary commissioner.

It is recommended that the company revise its custodial agreement to include the guideline provisions contained in the NAIC's Financial Condition Examiners Handbook.

Executive Compensation

The state of Wisconsin requires each Wisconsin-domiciled insurer to file a supplement to the annual statement entitled "Report of Executive Compensation" pursuant to ss. 601.42 and 611.63 (4), Wis. Stat. This report includes the total annual compensation paid to each director, each officer as defined by s. 611.12 (3), Wis. Stat., and the four most highly compensated members of executive management. Such compensation should include 401(k) and deferred compensation contributions, employer-paid insurance premiums, payments made on executive incentive plans, etc.

The company failed to include employer contributions for group health insurance as well as employer contributions to a 401(k) plan in the total compensation amount reported for certain executives. None of these omissions resulted in material understatement of reported compensation amounts. It is recommended that the company properly complete the "Report of Executive Compensation" as required by ss. 601.42 and 611.63 (4), Wis. Stat.

Affiliated Agreements

The exam team reviewed the intercompany service agreement entered into between the company and HGI. The review revealed that the agreement does not include an indemnification clause as required by Wisconsin Administration Code. Section Ins 40.04 (2) (d) (10), Wis. Adm. Code requires all related party agreements to include for indemnification of the insurer in the event of gross negligence or willful misconduct on the part of the affiliate providing the services. It is recommended that the company amend its service agreement with HGI to be in compliance with s. Ins 40.04 (2) (d) (10), Wis. Adm. Code.

VIII. CONCLUSION

Homesite Insurance Company of the Midwest is a stock insurance company incorporated on October 9, 1969, as Dawson Hail Insurance Company. The company was sold to HGI on May 5, 1999, which is when the current name of the company was adopted. The company became part of the American Family Group on December 31, 2013. The company redomiciled from North Dakota to Wisconsin in September 2016.

The company primarily writes homeowners multiple peril products, which includes home, renters, and condo insurance. The company's products are marketed nationally through its website, call centers, and most significantly, its partnerships with large financial institutions. Its largest partners are GEICO and Progressive.

During the period under examination gross written premium increased 110% to nearly $1.1 billion. On January 1, 2014, the company cancelled its intercompany pooling agreement with affiliates in the Homesite Group and entered into separate loss portfolio transfer and 100% quota share agreements, in which the company assumes the losses of all the companies in the Homesite Group, other than HICONY, which cedes 80%. The company also entered into a loss portfolio transfer and 100% quota share agreement with AFMIC, in which the company cedes all premium and losses. As a result, the company no longer retains any net premium or losses.

The current examination determined that the company is in compliance with the recommendation from the prior examination. The current examination resulted in three recommendations.

IX. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 38 - Investments—It is recommended that the company revise its custodial agreement to include the guideline provisions contained in the NAIC's Financial Condition Examiners Handbook.

2. Page 39 - Executive Compensation—It is recommended that the company properly complete the "Report of Executive Compensation" as required by ss. 601.42 and 611.63 (4), Wis. Stat.

3. Page 39 - Affiliated Agreements—It is recommended that the company amend its service agreement with HGI to be in compliance with s. Ins 40.04 (2) (d) (10), Wis. Adm. Code.

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:

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Jacob Burkett	Insurance Financial Examiner
John Coyle	Insurance Financial Examiner
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Respectfully submitted,

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