Report

of the

Examination of

Integrity Mutual Insurance Company

Appleton, Wisconsin

As of December 31, 2014

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State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

Scott Walker, *Governor*
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December 14, 2015

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:

INTEGRITY MUTUAL INSURANCE COMPANY
Appleton, Wisconsin

and this report is respectfully submitted.

I. INTRODUCTION

The previous examination of Integrity Mutual Insurance Company (Integrity Mutual or the company) was conducted in 2010 as of December 31, 2009. The current examination covered the intervening period ending December 31, 2014, and included a review of such 2015 transactions as deemed necessary to complete the examination.

The examination of the company was conducted concurrently with the examination of Grange Mutual Casualty Company and its affiliates. The Ohio Department of Insurance acted in the capacity as the lead state for the coordinated examinations. Work performed by the Ohio Department of Insurance 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 the audit of 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

The examination of the loss and loss adjustment reserves of the Grange Pool, of which Integrity Mutual is a member, was performed by a qualified actuary of the Ohio Department of Insurance. The actuary reviewed the adequacy of the company's loss and loss adjustment expense reserves. The actuary's results were reported to the examiner-in-charge. As deemed appropriate, reference is made in this report to the actuary's conclusion.

Investment Review

The Capital Markets Bureau of the NAIC was engaged by the Office of the Commissioner of Insurance to perform a review of the company's invested assets portfolio as of December 31, 2014. The results of that review were reported to the examiner-in-charge. As deemed appropriate, reference is made in this report to the findings of the review.

II. HISTORY AND PLAN OF OPERATION

The company was organized and commenced business in 1933 as a non-assessable mutual property and casualty insurer.

On December 19, 2001, Integrity Mutual affiliated with Grange Mutual Casualty Company (Grange Mutual). Under the affiliation, Integrity Mutual remains a separate entity and operates independently from Grange Mutual but pools risks, shares certain services and has common directors with Grange Mutual as described in this report.

In 2014, the company was licensed in Illinois, Iowa, Minnesota, Ohio, and Wisconsin and wrote direct premium in the following states:

Wisconsin	$52,539,012	56.0%
Minnesota	22,699,012	24.2
Iowa	18,566,019	19.8
Total	$93,804,043	100.0%

The major products marketed by Integrity Mutual include worker's compensation, commercial multiple peril, auto physical damage, commercial auto liability, private passenger auto liability, and homeowner's multiple peril. The major products are marketed through approximately 4,671 independent agents operating out of 858 agency locations. Agents are compensated according to the following commission schedule:

Auto lines (other than nonstandard)	15%
Nonstandard auto	10% - 13%
Homeowner's	10% - 15%
Inland marine	15% - 17%
Fire	15% - 17%
Liability lines (except garage and umbrella liability)	17%
Business owners and other specified commercial coverage	15% - 17%
Employers practices and liability	10%
Worker's compensation	5% - 7%
All other lines	15%

Integrity Mutual has a profit-sharing plan in place for its agents. The plan is offered on preferred (i.e., not nonstandard) lines to agents producing a minimum of $50,000 - $300,000 according to an escalating scale of production in the first through third and subsequent years the agency is contracted with the company. The bonuses paid are based on calendar year results and are based on a combination of the agent's net loss ratio and growth rate. Agents generating sufficient profit and growth are eligible for bonuses ranging from 0.68% - 10.95% of their net earned premium.

The following table is a summary of the net insurance premiums written by the company in 2014. The growth of the company is discussed in the “Financial Data” section of this report.

Line of Business	Direct Premium	Reinsurance Assumed	Reinsurance Ceded	Net Premium
Fire	$ 916,297	$ 566,222	$ 916,297	$ 566,222
Allied lines	577,127	304,970	577,127	304,970
Farmowner’s multiple peril	0	658,034	0	658,034
Homeowner’s multiple peril	9,818,205	8,841,882	9,818,205	8,841,882
Commercial multiple peril	22,920,292	3,863,892	22,920,292	3,863,892
Inland marine	614,876	274,987	614,876	274,987
Earthquake	1,878	77,922	1,878	77,922
Group accident and health	0	2,404	0	2,404
Worker’s compensation	26,705,871	1,611,124	27,113,600	1,203,395
Other liability – occurrence	3,743,866	568,841	3,743,866	568,841
Other liability – claims made	0	165	0	165
Products liability – occurrence	8,878	2,227	8,878	2,227
Private passenger auto liability	6,519,161	10,862,072	6,519,161	10,862,072
Commercial auto liability	10,384,765	3,495,863	10,384,765	3,495,863
Auto physical damage	11,581,444	9,396,439	11,581,444	9,396,439
Burglary and theft	11,383	590	11,383	590
Total All Lines	$93,804,043	$40,527,635	$94,211,772	$40,119,906

Integrity Mutual participates in a reinsurance agreement with Grange Mutual and its subsidiaries and affiliates wherein 100% of the net premiums, losses, loss adjustment expenses and underwriting expenses of all the companies are pooled and redistributed. In 2014, Integrity Mutual accounted for 7.4% of the direct premiums written by the seven-member pool; Integrity Mutual assumes 3.3% of the pool.

III. MANAGEMENT AND CONTROL

Board of Directors

The company's Bylaws stipulate that the number of directors shall be no fewer than five nor more than ten. Currently, the board of directors consists of six members. Directors are elected at annual meetings to serve a three-year term. Two directors are nominated by Integrity Mutual and the remaining directors are nominated by Grange Mutual. Officers are elected at the board's annual meeting. Members of the company's board of directors may also be members of other boards of directors in the Grange Mutual Casualty Group. Board members who also sit on other boards within the Grange Mutual Casualty Group receive separate compensation for their services from Grange Mutual.

Board members currently receive $50,000 annually for serving on both Integrity Mutual's and Integrity Property and Casualty Insurance Company's board, except for the Chairman who earns $100,000. Directors who are committee chairs receive an additional $12,000 annually. Also, John Ammedola, who is the Chief Executive Officer of Grange Mutual, and Jill Wagner, who is the President of Integrity Mutual, receive no compensation for their board positions.

Currently the board of directors consists of the following persons:

Name and Residence	Principal Occupation	Term Expires
John Ammendola Columbus, OH	CEO of Grange Mutual	2016
Douglas Paul Buth Appleton, WI	Retired Chief Executive Officer of Appleton Papers Inc.	2016
Glenn Eugene Corlett Chagrin Falls, OH	Board member of several companies	2016
Roger Anthony Formisano Middleton, WI	VP-Strategy at UW-Medical Foundation	2016
Thomas Simrall Stewart Columbus, OH	Lecturer/Professor at Ohio State University and Chairmen of the board	2016
Jill Ann Wagner Appleton, WI	President of Integrity Mutual and Integrity P&C	2016

Officers of the Company

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

Name	Office	2014 Compensation
Jill Ann Wagner	President	$278,770
LaVawn Dee Coleman*	Secretary	73,285
Brent Robert Hammer**	Treasurer	71,260
Christian Noel Martin	Vice President – Claims	215,143
John Paul McCaffrey***	Assistant Vice President – Finance	0
Beth Williams Murphy*	Assistant Secretary	28,791
Andrew Jay Ott	Vice President – Commercial Lines	174,276
Steven Cyril Klingemann	Vice President – Personal Lines	221,760
Scott Isaac David	Vice President – Sales and Marketing	109,024
Katey Sue Smith^	Vice President – Human Resources and Administration	59,022

The above compensation is the gross compensation for both Integrity Mutual and Integrity P&C.

Employees with an asterisk are Grange employees who allocate part of their time to Integrity Mutual and Integrity P&C.

* Allocated based on pro rata share of direct premium written.
** Allocated based on actual time.
*** Allocated based on actual time. Mr. McCaffrey acts as a backup for Mr. Hammer on an as needed basis and no time was allocated to Integrity Mutual during 2014.
^ Katey Sue Smith was hired in 2014.

Committees of the Board

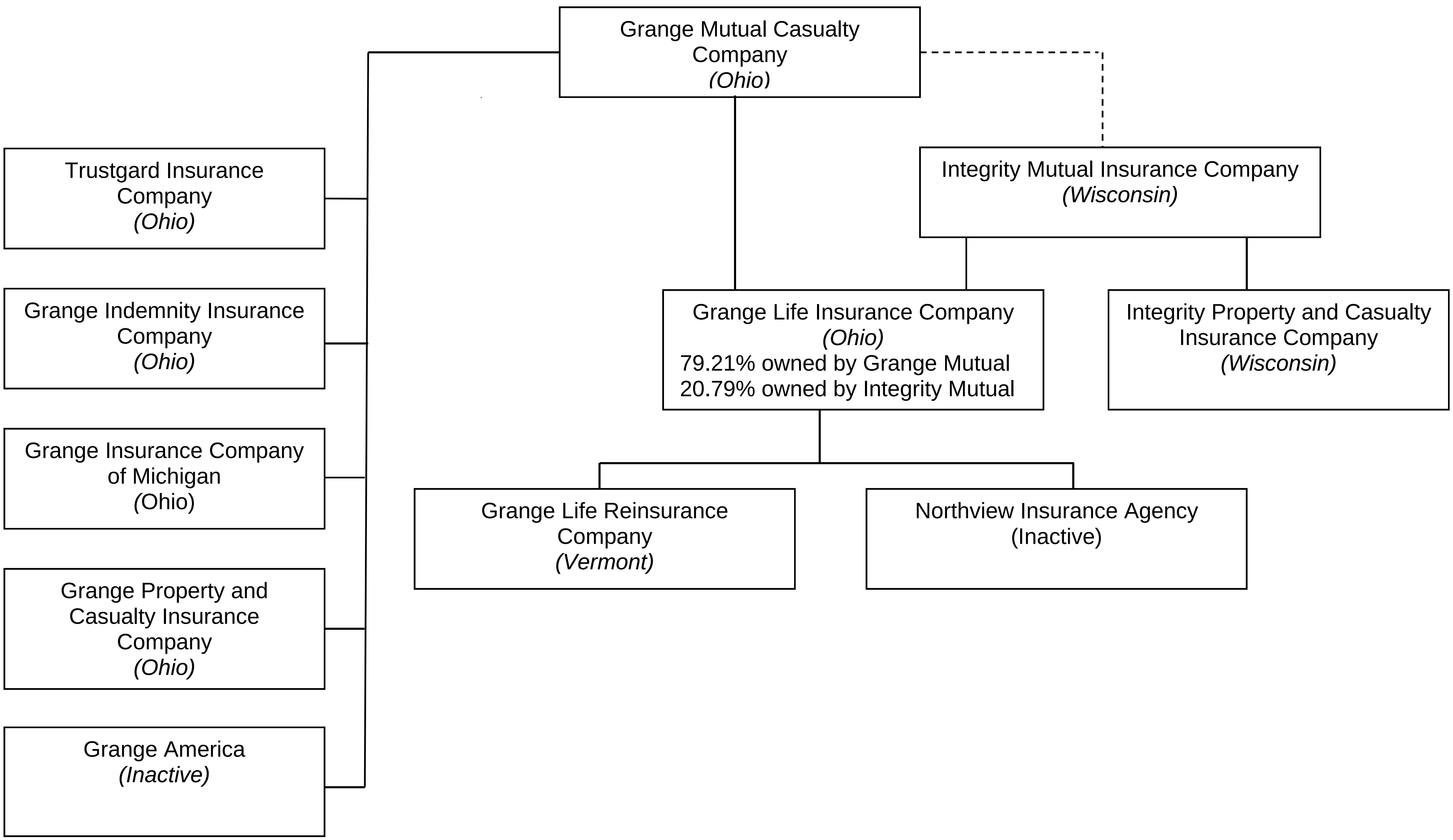
The company's bylaws allow for the formation of certain committees by the board of directors. The committees at the time of the examination are listed below:

Human Resources Committee	Audit Committee
Douglas Paul Buth, Chair	Roger Anthony Formisano, Chair
Glen Eugene Corlett	Douglas Paul Buth
Roger Anthony Formisano	Glen Eugene Corlett

IV. AFFILIATED COMPANIES

Integrity Mutual is a member of a holding company system. The organizational chart below depicts the relationships among the affiliates in the group. A brief description of the significant affiliates follows the organizational chart.

Organizational Chart
As of December 31, 2014



Integrity Property and Casualty Insurance Company

Integrity Property and Casualty Insurance Company (Integrity P&C) was organized and incorporated under the laws of the state of Wisconsin on April 18, 2007, and commenced business on July 16, 2007. The major products marketed by Integrity P&C include private passenger auto liability, auto physical damage, homeowner's multiple peril, and commercial multiple peril. Integrity P&C writes business in Wisconsin, Minnesota, and Iowa. For 2014, Integrity P&C produced 4.2% of the direct premiums written by the pool participants. As of December 31, 2014, the audited financial statements of Integrity P&C reported assets of $20,199,414, liabilities of $9,171,220, and capital and surplus of $11,028,194. Operations for 2014 produced net income of $1,017,455.

Grange Life Insurance Company

Grange Life Insurance Company (GLIC) was organized and incorporated under the laws of the state of Ohio on March 5, 1968, and commenced business on July 1, 1968. The major products marketed by GLIC include ordinary life, individual annuities, and group life. GLIC is licensed in 15 states. As of December 31, 2014, the audited financial statements of GLIC reported assets of $370,655,077, liabilities of $314,524,822, and capital and surplus of $56,130,254. Operations for 2014 produced net income of $3,396,597. Integrity Mutual owns 20.79% of GLIC.

Grange Life Reinsurance Company

Grange Life Reinsurance Company (GLRE) was organized and incorporated under the laws of the state of Vermont on September 20, 2012, and commenced business on December 18, 2012. GLRE is a special purpose finance captive insurance company established for the purpose of reinsuring certain traditional and universal life products which are written by GLIC. As of December 31, 2014, the audited financial statements of GLRE, prepared on the accounting basis prescribed by the state of Vermont, reported assets of $48,197,308, liabilities of $41,471,627, and capital and surplus of $6,725,681. Operations for 2014 produced a net loss of $13,077,210.

Grange Mutual and GLRE are co-borrowers on a $100 million credit facility agreement. As of December 31, 2014 GLRE has secured $39.25 million of the overall letter of credit available for the benefit of GLIC, thereby permitting GLIC to take reserve credit for the reinsurance ceded to GLRE. GLRE has a permitted practice by the Vermont Department of Insurance to report the letter of credit as part of its surplus instead of being excluded from its surplus as is required by statutory accounting principles. If the letter of credit were not to be included in surplus, GLRC's surplus would be $(32,524,319).

Grange Mutual Casualty Company

Grange Mutual Casualty Company was incorporated under the laws of the state of Ohio on March 25, 1935, and commenced business on April 20, 1935. Grange Mutual became an insurance holding company system by incorporating GM Premium Budget Incorporated, an Ohio corporation, a wholly owned stock subsidiary, on October 5, 1962. Grange Mutual is a mutual property and casualty insurance company whose members are its policyholders. Its main lines of business include private passenger auto liability, auto physical damage, homeowner's multiple peril, and commercial multiple peril. Grange Mutual is licensed in 15 states. For 2014, Grange Mutual produced 42.1% of the direct premiums written by the pool participants. As of December 31, 2014, the audited financial statements of Grange Mutual reported assets of $2,120,580,772, liabilities of $1,073,282,751, and surplus of $1,047,298,021. Operations for 2014 produced net income of $33,109,967. Grange Mutual owns 79.21% of GLIC, as noted in the organizational chart above.

Trustgard Insurance Company

Trustgard Insurance Company was incorporated under the laws of the state of Minnesota on July 1, 1981, and commenced business on November 10, 1981. Grange Mutual acquired Trustgard Insurance Company as a shell from its original parent, Northwestern National Life Insurance Company, on December 29, 1989. Trustgard Insurance Company was redomiciled to Ohio in 1999. Trustgard Insurance Company is being utilized to expand Grange Mutual Group's personal and commercial lines business, including nonstandard automobile products, in the states where it is licensed to do business. Trustgard Insurance Company is licensed in 21 states. In 2014, Trustgard Insurance Company produced 14.2% of the direct premiums written by the pool participants. As of December 31, 2014, the audited financial statements of Trustgard Insurance Company reported assets of $105,763,557, liabilities of $46,762,514, and capital and surplus of $59,001,043. Operations for 2014 produced net income of $4,906,823.

Grange Indemnity Insurance Company

Grange Indemnity Insurance Company was incorporated on March 10, 1995, under the laws of the state of Ohio and it commenced business on August 3, 1995. Grange Indemnity Insurance Company was created to facilitate its parent company's strategic plan to expand its product lines and offer more flexibility in the pricing of its products. Currently, it primarily writes nonstandard automobile products for the Grange Mutual Group. Grange Indemnity Insurance Company is licensed in 12 states. In 2014, Grange Indemnity Insurance Company produced 6.1% of the direct premiums written by the pool participants. As of December 31, 2014, the audited financial statements of Grange Indemnity Insurance Company reported assets of $96,598,081, liabilities of $49,684,481, and capital and surplus of $46,913,600. Operations for 2014 produced net income of $3,234,838.

Grange Insurance Company of Michigan

Grange Insurance Company of Michigan was incorporated under the laws of Michigan on April 23, 2001, and commenced business on July 26, 2001. In 2003, the company was redomiciled to Ohio. Its main lines of business include nonstandard and standard private passenger auto liability, auto physical damage, and homeowner's multiple peril. Grange Insurance Company of Michigan is licensed in two states and only writes business in Michigan. In 2014, Grange Insurance Company of Michigan produced 8.2% of the direct premiums written by the pool participants. As of December 31, 2014, the audited financial statements of Grange Insurance Company of Michigan reported assets of $67,290,125, liabilities of $29,560,616, and capital and surplus of $37,729,509. Operations for 2014 produced net income of $2,336,560.

Grange Property and Casualty Insurance Company

Grange Property and Casualty Insurance Company was incorporated on April 1, 2004, under the laws of the state of Ohio and commenced business on May 21, 2004. Its main lines of business include nonstandard and standard private passenger auto liability and homeowner's multiple peril. Grange Property and Casualty Insurance Company is licensed in six states. In 2014, Grange Property and Casualty Insurance Company produced 17.8% of the direct premiums written by the pool participants. As of December 31, 2014, the audited financial statements of Grange Property and Casualty Insurance Company reported assets of $60,202,857, liabilities of $26,913,045 and capital and surplus of $33,289,812. Operations for 2014 produced net income of $4,105,974.

Agreements with Affiliates

Integrity Mutual has agreements with affiliates regarding cost sharing, tax allocation, and investment management as detailed below. Additionally, the company has affiliated reinsurance agreements which are described in section V of the report titled "Reinsurance."

Cost Sharing Agreement

Integrity Mutual, Integrity P&C, and Grange Mutual entered into a Cost Sharing Agreement effective January 1, 2007. Under this agreement, Grange Mutual and Integrity Mutual provide essential services to the day-to-day operation as requested which include, but is not limited to, billing and premium collection, rate and form filings, policy administration, communications, sales and marketing, agent and broker related, human resources, information systems, actuarial, accounting and financial, legal, corporate and executive support and other miscellaneous services. Each party to the agreement is to reimburse the other parties for all costs and expenses for providing such services calculated based on actual cost and usage. Settlements of fees and expenses are to be made within 30 days of the end of each quarterly period of the fiscal year.

Parties may terminate this agreement by written notice at any time due to certain named causes or events. The agreement automatically terminates as of the termination effective date of the reinsurance pooling agreement, which is further discussed in section V of this report titled “Reinsurance.” In the event of termination, the company may request Grange Mutual continue to provide such services until the effective date of the termination; however, for the services provided regarding claims administration the company may request Grange Mutual to provide such services until the run-off of claims is complete.

Tax Allocation Agreement

Effective May 20, 2007, Integrity Mutual entered into an affiliated tax allocation agreement with Integrity P&C. Under this agreement, the company files a consolidated U.S. federal income tax return that includes Integrity P&C, and Integrity P&C pays the company an amount not to exceed the amount of tax it would have paid had a tax return been filed on a separate return basis. Should the company incur a taxable loss or excess tax credits, Integrity Mutual will reimburse Integrity P&C. All settlements under this agreement shall be made within 10 days after the filing of the final federal income tax return. This agreement shall remain in effect for each year the taxable return is filed unless the agreement is terminated.

Investment Management Agreement

Integrity Mutual entered into an Investment Management Agreement with Grange Mutual effective January 23, 2008. Under this agreement, Grange Mutual acts as the company’s agent and attorney-in-fact with respect to its investment portfolio. Subject to Integrity Mutual’s board of directors and investment guidelines, Grange Mutual has complete day-to-day discretionary control, including the power to make acquisitions and disposals of investments and issue instructions to brokers and custodians. The company is to compensate Grange Mutual an amount that is consistent with the terms included in the cost allocation agreement, described previously, for the performance of Grange Mutual’s duties under this agreement.

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.

Integrity Mutual participates in the National Worker's Compensation Reinsurance Pool. The pool is mandatory for insurers who write worker's compensation in Iowa and certain other states. The pool provides coverage to employers that cannot obtain coverage in the voluntary market. In 2014 the company assumed approximately $408,000 from the pool. The assumed business is not subject to the affiliated pooling agreement discussed below.

Affiliated Pooling Agreement

Integrity Mutual participates in a pooling arrangement with certain of its affiliates. The pool participants cede 100% of their net premiums written, losses, loss adjustment expenses, underwriting expenses, and related balance sheet categories to Grange Mutual. Grange Mutual, as the lead company and pool manager, administers all aspects of the pooled business, including placement of reinsurance with nonaffiliated insurers, except for certain named worker's compensation business which placement is handled by Integrity Mutual's management. After external reinsurance, Grange Mutual distributes the net pooled business according to the participations listed below. Income and expenses related to investment operation and corporate taxes, including federal income taxes, are not included in the pooling.

Participants:

	As of 12/31/2014
Grange Mutual Casualty Company	84.00%
Grange Indemnity Insurance Company	4.00
Trustgard Insurance Company	3.50
Grange Insurance Company of Michigan	2.50
Integrity Mutual Insurance Company	3.30
Grange Property and Casualty Insurance Company	2.00
Integrity Property and Casualty Insurance Company	0.70
Total Grange Mutual Casualty Group Pool	100.00%

Lines covered: All lines of business written by the pool participants

Effective:	January 1, 2009, and continuous until cancelled
Termination:	At any time with 12 months' written notice by any party for certain named reasons. The agreement may be terminated at any time upon written consent of all parties to the agreement. Upon termination, reinsurance and reserve settlements between the parties shall be made upon the same formulas and conditions as part of the inception of the agreement, which would restore each participant its pre-pooling underwriting assets and liabilities determined as of the date of termination.
Additional comment:	Any dispute arising out of this agreement shall be settled through arbitration

Ceding Contracts

Grange Mutual participates in a majority of the ceding contracts as the lead company of the affiliated pool. Most contracts apply to the Grange pool as a whole except for the contracts summarized below in items 2, 4, 8, 10, and 11. The descriptions of the contracts that apply only to selected members of the Grange pool include a list of participating ceding companies. The following reinsurance contracts were in effect during the period under examination, through which Integrity Mutual ceded its property and casualty business:

1. Type of contract: Property and Casualty Excess of Loss

Reinsurer:	General Reinsurance Corporation
Scope:	A) Property business defined as insurance classified in the NAIC form of annual statement as fire, allied lines, inland marine, commercial multiple peril, homeowner's multiple peril, farmowner's multiple peril, auto physical damage
	B) Liability business defined as insurance classified in the NAIC form of annual statement as private passenger and commercial auto no-fault (personal injury protection), other private passenger and commercial auto liability (including uninsured and underinsured motorists), other liability, product liability, commercial multiple peril, homeowner's multiple peril, farmowner's multiple peril, personal, commercial and farm umbrella, and worker's compensation and employers' liability
	C) Worker's compensation and employers' liability business (coverage for war and terrorism occurrences only)
Company retention:	A) First $1,250,000 of net losses, each risk
	B) First $1,500,000 of net losses, each occurrence, for worker's compensation and employers' liability, and $2,000,000, each occurrence, for all other casualty business
	C) First $1,500,000 each war or terrorism occurrence

Reinsurance limits:	A)	Layer 1: $3,750,000 excess of $1,250,000, subject to a limit of $11,250,000 per occurrence Layer 2: $5,000,000 excess of $5,000,000, subject to a limit of $15,000,000 per occurrence and $15,000,000 for all occurrences Layer 3: $5,000,000 excess of $10,000,000, subject to a limit of $15,000,000 per occurrence and $15,000,000 for all occurrences
	B)	Layer 1 $500,000 excess of $1,500,000, each occurrence (worker's compensation and employers' liability only) Layer 2: $4,000,000 excess of $2,000,000, each occurrence Layer 3: $5,000,000 excess of $6,000,000, each occurrence Layer 4: $4,000,000 excess of $11,000,000, each occurrence, subject to a limit of $8,000,000 for all occurrences
	C)	$8,000,000 each war or terrorism occurrence
Premium:	A)	Layer 1: Premiums are calculated as a percentage of subject earned premium. Premium rates vary by type of property coverage. Minimum: none Layer 2: Minimum: $800,000; premium rates vary by type of property coverage Layer 3: Minimum: $600,000; premium rates vary by type of property coverage
	B)	Layer 1: Rates for worker's compensation coverage in all four layers vary by the applicable reinsurance rates in certain states; subject to a minimum premium of $300,000 in the Forth Layer Layer 2: 0.113% of subject earned premium for primary liability business and 32.806% of subject earned premium for commercial umbrella business Layer 3: 0.053% of subject earned premium for primary liability business and 3.135% of subject earned premium for commercial umbrella business Layer 4: 0.033% of subject earned premium for primary liability business and 0.280% of subject earned premium for commercial umbrella business
	C)	$170,000
Reinstatement:	A)	Layer 1: Free and unlimited Layer 2: The first $5,000,000 is free; additional reinsurance premium for the excess of $5,000,000 Layer 3: The first $5,000 000 is free; additional reinsurance premium for the excess of $5,000,000
	B)	Free and unlimited; not to exceed the reinsurer limit of liability under the Forth Layer as respects all occurrences
Effective date:		January 1, 2015
Termination:		January 1, 2016

2.	Type of contract:	Excess of Loss – Mandatory reinsurance pool
	Reinsurer:	Workers' Compensation Reinsurance Association
	Ceding companies:	Grange Mutual Insurance Company Integrity Property and Casualty Insurance Company Integrity Mutual Insurance Company Trustgard Insurance Company
	Scope:	Worker's compensation in Minnesota
	Company retention:	$490,000 per occurrence
	Reinsurance limits:	No limit
	Premium:	9.350% of subject gross net earned premium
	Effective date:	January 1, 2015
	Termination:	December 31, 2015
3.	Type of contract:	Worker's Compensation and Employers' Liability Excess of Loss
	Reinsurer:	Safety National Casualty Corporation
	Intermediary:	Gen Re Intermediaries Corporation
	Scope:	Worker's compensation and employers' liability business
	Company retention:	$15,000,000, each occurrence
	Reinsurance limits:	$10,000,000 excess of $15,000,000, each occurrence
	Premium:	Minimum: $419,651; deposit: $524,564; premium rate: 0.0951% of subject net earned premium
	Reinstatement:	Subject to the maximum payment of $20,000,000 of net loss, as respects all occurrences, additional reinsurance premium applies
	Effective date:	January 1, 2015
	Termination:	December 31, 2015
4.	Type of contract:	Property Facultative Agreement
	Reinsurer:	General Reinsurance Corporation
	Ceding companies:	Grange Mutual Insurance Company Grange Indemnity Insurance Company Integrity Mutual Insurance Company Trustgard Insurance Company Grange Insurance Company of Michigan Grange Property and Casualty Insurance Company
	Scope:	Selected commercial business

Company retention:	$15,000,000, each occurrence
Reinsurance limits:	$30,000,000 to $50,000,000 depending on the classification of business hazard (high, medium, or low)
Premium:	Sliding scale depending on the total insured value
Effective date:	January 1, 2015
Termination:	January 1, 2016

5. Type of contract: Property Catastrophe Excess of Loss

Reinsurer:	Various, see Exhibit A
Intermediary:	Aon Benfield Inc.
Scope:	All property business
Company retention:	Layer 1: 30,000,000, each occurrence Layer 2: 50,000,000, each occurrence
Reinsurance limits:	Layer 1: 20,000,000 excess of $30,000,000, subject to $40,000,000 term limit Layer 2: 50,000,000 excess of $50,000,000, subject to $100,000,000 term limit
Premium:	Layer 1: Minimum: $3,680,000; deposit: $4,600,000; premium rate: 1.0938% of subject net earned premium Layer 2: Minimum: $2,300,000; deposit: $2,875,000; premium rate: 0.6836% of subject net earned premium
Reinstatement:	One for each layer, subject to additional reinsurance premium
Effective date:	January 1, 2015
Termination:	January 1, 2016

6. Type of contract: Third Layer Property Catastrophe Excess of Loss

Reinsurer:	Various, see Exhibit A
Intermediary:	Aon Benfield Inc.
Scope:	All property business
Company retention:	$100,000,000 of ultimate net loss, each occurrence
Reinsurance limits:	$150,000,000 each occurrence
Premium:	1st Year: Deposit: $3,225,000 based on estimated subject earned premium of $420,566,239; deviation from subject earned premium greater than 7% is adjusted based on a rate of 0.7668%

		2nd Year: Deposit: $3,225,000 based on estimated subject earned premium of $433,183,226; deviation from subject earned premium greater than 7% is adjusted based on a rate of 0.7443%
		3rd Year: Deposit: $3,225,000 based on estimated subject earned premium of $450,510,555; deviation from subject earned premium greater than 7% is adjusted based on a rate of 0.7159%
	Reinstatement:	Two for the contract period, subject to additional reinsurance premium
	Effective date:	January 1, 2015
	Termination:	January 1, 2018
7.	Type of contract:	Property Catastrophe Aggregate Excess of Loss
	Reinsurer:	Various, see Exhibit A
	Intermediary:	Aon Benfield, Inc.
	Scope:	All property business
	Company retention:	$95,000,000 of ultimate net loss; only losses in excess of $1,000,000 but not greater than 29,000,000 for each loss occurrence accumulate toward the company's retention
	Reinsurance limits:	$50,000,000 excess of $95,000,000
	Premium:	Minimum: $6,500,000; deposit: $8,125,000; premium rate: 1.9319% of net earned premium
	Effective date:	January 1, 2015
	Termination:	January 1, 2016
8.	Type of contract:	Equipment Breakdown Coverage
	Reinsurer:	The Hartford Steam Boiler Inspection and Insurance Company
	Ceding companies:	Grange Mutual Insurance Company Grange Insurance Company of Michigan Integrity Mutual Insurance Company
	Scope:	100% of the gross equipment breakdown premium written associated with commercial package or businessowners policies
	Company retention:	Company has no retention on this line of business
	Reinsurance limits:	$50,000,000 for any one accident, any one policy

	Premium:	100% of the company’s gross equipment breakdown premium
		All premiums in this contract are subject to a monthly payment schedule
	Commission:	32% of each policy’s gross equipment breakdown premium ceded under this agreement
	Profit sharing:	As of January 1, 2010, this contract includes a profit sharing commission of 50% for a positive remaining balance after the sum of incurred losses and loss carry forwards are deducted from plan losses
	Effective date:	April 1, 2006
	Termination:	Continuous
9.	Type of contract:	Equipment Breakdown Coverage
	Reinsurer:	The Hartford Steam Boiler Inspection and Insurance Company
	Scope:	100% of the equipment breakdown liability associated with homeowner’s package policies containing the required equipment breakdown endorsement
	Company retention:	Company has no retention on this line of business
	Reinsurance limits:	$50,000 for any one accident, any one policy
	Premium:	Premium varies per limit of liability for each policy covered
		All premiums in this contract are subject to a monthly payment schedule
	Effective date:	August 1, 2006
	Termination:	Continuous
10.	Type of contract:	Data Compromise
	Reinsurer:	The Hartford Steam Boiler Inspection and Insurance Company
	Ceding companies:	Grange Mutual Insurance Company Grange Insurance Company of Michigan Integrity Mutual Insurance Company
	Scope:	Losses covered under a data compromise coverage form
	Company retention:	Company has no retention on this line of business
	Reinsurance limits:	$50,000 annual aggregate per policy, subject to aggregate limit of liability of $1,200,000
	Premium:	Varies from $62 to $135 per policy
	Commission:	30% of each policy’s reinsurance premium ceded

	Effective date:	March 1, 2013
	Termination:	Continuous
11.	Type of contract:	Quota Share Employer Practices Liability
	Reinsurer:	General Reinsurance Corporation
	Ceding companies:	Grange Mutual Insurance Company Grange Insurance Company of Michigan Integrity Mutual Insurance Company
	Scope:	A) Package policy employer practices liability business B) Monoline employment practices liability business
	Company retention:	A) 50% of the policy limit. It is stipulated that the limits of liability of the company with respect to any one policy shall not exceed $100,000 each claim/$100,000 aggregate limit B) 50% of the first $100,000 of net loss each claim; 10% of the next $900,000 excess of $100,000
	Reinsurance limits:	A) 50% of the policy limit B) 50% of the first $100,000 of net loss each claim; 90% of the next $900,000 excess of $100,000
	Ceding commission:	A) 22.5% of reinsurance premium B) 22.5% of reinsurance premium
	Premium:	A) 50% of the company's subject premium written B) 50% of the company's subject premium written up to $100,000; 90% of company's subject premium written above $100,000 limit up to $1,000,000
	Effective date:	June 1, 2007
	Termination:	Continuous

Exhibit A

Reinsurer(s)	1st Layer	2nd Layer	3rd Layer	Aggregate
Employers Mutual Casualty Company	1.00%	1.50%	0.50%	0.00%
Everest Reinsurance Company	10.00	8.00	4.00	10.00
QBE Reinsurance Corporation	0.00	0.59	1.00	0.00
RLI Insurance Co.	7.50	0.00	0.00	0.00
Swiss Reinsurance America Corp.	0.00	10.00	20.00	0.00
ACE Tempest Reinsurance Ltd.	0.00	0.00	0.00	10.00
Arch Reinsurance Ltd.	7.50	3.33	2.00	12.50
Aspen Insurance Limited	5.00	5.00	0.00	0.00
Catlin Ins Co Ltd.	3.00	2.00	0.00	5.00
Hamilton Re, Ltd.	2.00	2.00	2.00	4.00
Hannover Re (Bermuda), Ltd.	0.00	0.00	1.00	0.00
Hiscox Insurance Company (Bermuda) Limited	6.00	1.00	6.00	15.00
Markel Bermuda Limited	5.00	0.00	1.50	0.00
Montpelier Reinsurance Ltd.	4.20	4.20	4.00	0.00
MS Frontier Reinsurance Limited	0.00	0.00	6.00	0.00
Platinum Underwriters Bermuda Limited	5.00	1.00	0.00	0.00
Renaissance Reinsurance, Ltd.	2.50	0.00	0.00	0.00
Qatar Reinsurance Company LLC	0.00	1.00	1.00	2.50
Tokio Millennium Re AG (Bermuda Branch)	0.00	4.00	8.00	0.00
XL RE Limited	5.00	0.00	0.00	0.00
Mapfre Re, Compania de Reaseguros, S.A.	0.00	4.00	3.00	1.00
Amlin AG (Bermuda Branch)	3.00	6.00	6.50	5.00
SCOR Global P&C SE	4.00	0.00	0.00	0.00
Sirius International Insurance Corporation	0.00	0.00	2.00	0.00
Lloyd’s Underwriters	28.60	42.48	28.00	34.75
Taiping Reinsurance Co. Ltd.	0.70	0.70	0.75	0.25
General Insurance Company of India	0.00	3.20	0.00	0.00
Sompo Japan Nipponkoa Insurance Inc.	0.00	0.00	2.75	0.00
Total	100.00%	100.00%	100.00%	100.00%

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, 2014, 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.

Integrity Mutual Insurance Company
Assets
As of December 31, 2014

	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	$47,150,387	$	$47,150,387
Stocks:			
Preferred stocks	1,877,841		1,877,841
Common stocks	22,395,552		22,395,552
Real estate:			
Occupied by the company	1,591,417		1,591,417
Cash, cash equivalents, and short-term investments	7,743,203		7,743,203
Investment income due and accrued	420,190		420,190
Premiums and considerations:			
Uncollected premiums and agents' balances in course of collection	7,910,297	60,410	7,849,887
Deferred premiums, agents' balances, and installments booked but deferred and not yet due	17,767	744	17,022
Reinsurance:			
Amounts recoverable from reinsurers	4,116		4,116
Current federal and foreign income tax recoverable and interest thereon	32,147		32,147
Net deferred tax asset	3,317,596	863,218	2,454,378
Electronic data processing equipment and software	14,143		14,143
Furniture and equipment, including health care delivery assets	328,958	328,958	
Write-ins for other than invested assets:			
Prepaid pension expense	698,122	698,122	
Equities in pools	22,406		22,406
Miscellaneous receivable	622		622
Prepaid expenses	93,977	93,977	
Total Assets	$93,618,739	$2,045,429	$91,573,309

Integrity Mutual Insurance Company
Liabilities, Surplus, and Other Funds
As of December 31, 2014

Losses		$15,206,454
Loss adjustment expenses		4,307,541
Commissions payable, contingent commissions, and other similar charges		613,727
Other expenses (excluding taxes, licenses, and fees)		1,227,591
Taxes, licenses, and fees (excluding federal and foreign income taxes)		462,214
Unearned premiums		15,928,469
Advance premium		700,680
Dividends declared and unpaid:		
Stockholders		
Policyholders		44,226
Ceded reinsurance premiums payable (net of ceding commissions)		2,236,149
Amounts withheld or retained by company for account of others		376,282
Payable to parent, subsidiaries, and affiliates		1,285,298
Write-ins for liabilities:		
Liability for benefit plans		4,227,417
Total liabilities		46,616,047
Write-ins for special surplus funds:		
Guarantee fund for non-assessability	$ 1,000,000	
Unassigned funds (surplus)	43,957,262	
Surplus as regards policyholders		44,957,262
Total Liabilities and Surplus		$91,573,309

Integrity Mutual Insurance Company
Summary of Operations
For the Year 2014

Underwriting Income		
Premiums earned		$38,990,528
Deductions:		
Losses incurred	$22,414,335	
Loss adjustment expenses incurred	4,463,469	
Other underwriting expenses incurred	12,179,343	
Total underwriting deductions		39,057,147
Net underwriting gain (loss)		(66,619)
Investment Income		
Net investment income earned	942,907	
Net realized capital gains (losses)	574,564	
Net investment gain (loss)		1,517,471
Other Income		
Net gain (loss) from agents' or premium balances charged off	(214,507)	
Finance and service charges not included in premiums	582,723	
Write-ins for miscellaneous income:		
Miscellaneous income	39,436	
Total other income		407,652
Net income (loss) before dividends to policyholders and before federal and foreign income taxes		1,858,504
Dividends to policyholders		108,570
Net income (loss) after dividends to policyholders but before federal and foreign income taxes		1,749,934
Federal and foreign income taxes incurred		116,652
Net Income		$ 1,633,282

Integrity Mutual Insurance Company
Cash Flow
For the Year 2014

Premiums collected net of reinsurance			$40,340,319
Net investment income			1,666,959
Miscellaneous income			407,652
Total			42,414,930
Benefit- and loss-related payments		$20,858,933	
Commissions, expenses paid, and aggregate write-ins for deductions		16,701,237	
Dividends paid to policyholders		97,182	
Federal and foreign income taxes paid (recovered)		272,336	
Total deductions			37,929,688
Net cash from operations			4,485,243
Proceeds from investments sold, matured, or repaid:			
Bonds	$ 9,895,285		
Stocks	1,368,116		
Miscellaneous proceeds	255,001		
Total investment proceeds		11,518,402	
Cost of investments acquired (long-term only):			
Bonds	16,083,382		
Stocks	828,947		
Real estate	343,646		
Total investments acquired		17,255,975	
Net cash from investments			(5,737,574)
Cash from financing and miscellaneous sources:			
Other cash provided (applied)			933,993
Reconciliation:			
Net change in cash, cash equivalents, and short-term investments			(318,338)
Cash, cash equivalents, and short-term investments:			
Beginning of year			8,061,541
End of Year			$ 7,743,203

Integrity Mutual Insurance Company
Compulsory and Security Surplus Calculation
December 31, 2014

Assets			$91,573,309
Less investments in insurance subsidiaries			22,395,552
Plus security surplus excess of insurance subsidiaries			17,481,632
Less liabilities			46,616,047
Adjusted surplus			40,043,342
Annual premium:			
Individual accident and health	$ 0		
Factor	15%		
Total		$ 0	
Group accident and health	2,404		
Factor	10%		
Total		240	
Lines other than accident and health	40,582,602		
Factor	20%		
Total		8,116,520	
Compulsory surplus (subject to a minimum of $2 million)			8,116.760
Compulsory Surplus Excess			$31,926,582
Adjusted surplus (from above)			$40,043,342
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%)			11,363,464
Security Surplus Excess			$28,679,878

Integrity Mutual Insurance Company
Analysis of Surplus
For the Five-Year Period Ending December 31, 2014

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

	2014	**2013**	**2012**	**2011**	**2010**
Surplus, beginning of year	$43,042,281	$40,236,012	$35,875,929	$33,736,844	$31,990,473
Net income	1,633,282	1,400,950	1,669,371	1,095,591	533,029
Change in net unrealized capital gains/losses	1,973,308	926,944	2,313,013	1,338,363	1,101,901
Change in net deferred income tax	608,879	440,172	(354,798)	(186,378)	73,297
Change in non-admitted assets	(345,437)	330,225	282,722	581,961	368,730
Write-ins for gains and (losses) in surplus:					
Change in minimum pension liability	(1,955,051)	1,207,740	449,775	(690,452)	(330,586)
Entire transition liability for benefit plans		(1,433,448)			
Benefit cost measurement date adjustment (3 months)		(66,314)			
Additional admitted deferred tax asset adjustment				(11,294)	(63,849)
Reclassification of additional admitted deferred tax asset adjustment to special surplus funds				11,294	63,849
Surplus, End of Year	$44,957,262	$43,042,281	$40,236,012	$35,875,929	$33,736,844

Integrity Mutual Insurance Company
Insurance Regulatory Information System
For the Five-Year Period Ending December 31, 2014

The company's NAIC Insurance Regulatory Information System (IRIS) results for the period under examination are summarized below.

	Ratio	2014	2013	2012	2011	2010
#1	Gross Premium to Surplus	299.0%	292.0%	282.0%	295.0%	333.0%
#2	Net Premium to Surplus	89.0	87.0	87.0	95.0	108.0
#3	Change in Net Premiums Written	7.0	8.0	3.0	-7.0	-1.0
#4	Surplus Aid to Surplus	0.0	0.0	0.0	0.0	1.0
#5	Two-Year Overall Operating Ratio	96.0	95.0	97.0	97.0	98.0
#6	Investment Yield	1.2*	1.2*	1.7*	1.9*	2.3*
#7	Gross Change in Surplus	4.0	7.0	12.0	6.0	5.0
#8	Change in Adjusted Surplus	4.0	7.0	12.0	6.0	5.0
#9	Liabilities to Liquid Assets	81.0	78.0	77.0	80.0	84.0
#10	Agents' Balances to Surplus	17.0	17.0	16.0	17.0	19.0
#11	One-Year Reserve Development to Surplus	1.0	0.0	-3.0	-4.0	-3.0
#12	Two-Year Reserve Development to Surplus	1.0	-2.0	-5.0	-5.0	-3.0
#13	Estimated Current Reserve Deficiency to Surplus	0.0	-2.0	-4.0	-6.0	-2.0

Ratio No. 6 provides the percentage of annual income on an average investment portfolio. There was an exception every year under examination; this is in part due to the low interest rate environment and the company's conservative investment portfolio which is comprised mostly of low risk investment grade bonds. Also, the company has not received shareholder dividends from Integrity P&C or GLIC during the period under examination.

Growth of Integrity Mutual Insurance Company

Year	Admitted Assets	Liabilities	Surplus as Regards Policyholders	Net Income
2014	$91,573,309	$46,616,047	$44,957,262	$1,633,282
2013	83,243,307	40,201,026	43,042,281	1,400,950
2012	78,513,671	38,277,659	40,236,012	1,669,371
2011	72,224,967	36,349,037	35,875,929	1,095,591
2010	74,577,829	40,820,985	33,736,844	533,029
2009	68,064,269	36,073,796	31,990,473	556,454

Year	Direct Premium Written	Net Premium Written	Premium Earned	Loss and LAE Ratio	Expense Ratio	Combined Ratio
2014	$93,804,043	$40,119,906	$38,990,528	68.9%	29.3%	98.2%
2013	87,637,763	37,613,702	36,483,335	66.9	30.6	97.5
2012	78,441,119	34,914,266	34,144,493	69.0	30.1	99.1
2011	71,934,291	33,938,604	34,435,468	70.5	30.2	100.7
2010	75,731,306	36,513,473	36,974,225	71.7	30.5	102.2
2009	85,405,818	36,994,572	36,245,621	72.0	29.9	101.9

Direct premium written decreased 16% from 2009 through 2011. The decrease can be attributable to soft market conditions and rate increases which took effect in both 2010 and 2011 as well as changes in underwriting criteria and eligibility. Direct premium began to increase in 2012 due to growth in the company's commercial lines. From 2011 through 2014, the company's largest line of business, worker's compensation, increased 58% and the second largest line of business, commercial multiple peril increased 56%.

The company's net loss and loss adjusted expense ratio improved each year from 2009 through 2013; however, it experienced a two point increase in 2014. The company's net loss ratio is heavily influenced by the direct results of other pool members, as the company is a pool participant. The company also attributes the improvements to stricter underwriting standards and pricing actions taken by the group in 2010-2012. These actions improved the loss ratio on the homeowner's line of business, which had consistently lagged behind other lines of business in terms of profitability.

Surplus increased 41% during the period under examination. The increase is predominantly due to the company's net income and unrealized investment gains, most of which are from the company's subsidiary, Integrity P&C, which the company reports at its statutory value.

Reconciliation of Surplus per Examination

No adjustments were made to surplus as a result of the examination. The amount of surplus reported by the company as of December 31, 2014, is accepted.

VII. SUMMARY OF EXAMINATION RESULTS

Compliance with Prior Examination Report Recommendations

There were two specific comments and recommendations in the previous examination report. Comments and recommendations contained in the last examination report and actions taken by the company are as follows:

1. Management and Control—It is recommended that this office be notified of special agreements for executive services and executive compensation pursuant to s. 611.63, Wis. Stat.

   Action—Compliance.

2. Management and Control—It is recommended that the company file biographical sketches with the department within 15 days of the date of election of new officers/directors in accordance with s. Ins 6.52 (5), Wis. Adm. Code.

   Action—Compliance.

Summary of Current Examination Results

There were no adverse or material findings as a result of the current examination of the company.

VIII. CONCLUSION

There were no recommendations and no adjustments to surplus or reclassifications made as a result of the examination. Also, the company was found to be in compliance with all recommendations made during the prior examination.

The company is an affiliate of Grange Mutual; it participates in an intercompany reinsurance pooling agreement with Grange Mutual as the lead company. In 2014, Integrity Mutual accounted for 7.4% of the direct premiums written by the seven-member pool and it assumed 3.3% of the net results. The company’s direct premium written decreased 16% from 2009 through 2011. In 2012 direct premium began to increase due to growth in the company’s commercial lines which included worker’s compensation and commercial multiple peril. As a result of increased profitability and unrealized gains in affiliated investments, the company’s surplus increased 41% during the period under examination to $44,957,262.

IX. SUMMARY OF COMMENTS AND RECOMMENDATIONS

There were no recommendations made as a result of this examination.

X. ACKNOWLEDGMENT

The courtesy and cooperation extended during the course of the examination by the officers and employees of the company are acknowledged.

In addition to the undersigned, the following representatives of the Office of the Commissioner of Insurance, State of Wisconsin, participated in the examination:

Name	Title
Tom Hilger	Insurance Financial Examiner
Thomas Houston	IT Specialist

Respectfully submitted,

Levi Olson
Examiner-in-Charge