

Report
of the
Examination of
Milwaukee Casualty Insurance Co.
Dallas, Texas
As of December 31, 2014

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State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

Scott Walker, Governor
Theodore K. Nickel, Commissioner

Wisconsin.gov

May 24, 2016

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

Commissioner:

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

MILWAUKEE CASUALTY INSURANCE CO.
Dallas, Texas

and this report is respectfully submitted.

I. INTRODUCTION

The previous examination of Milwaukee Casualty Insurance Co. (Milwaukee Casualty or the company) was conducted in 2011 as of December 31, 2010. 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 the Security National Insurance Company subgroup, as part of the multi-state coordinated examination of the AmTrust Financial Services, Inc., insurance group of companies as of December 31, 2014. The Delaware Department of Insurance (DDOI) acted in the capacity as the lead state for the coordinated examinations. Work performed by the DDOI 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

An independent actuarial firm was engaged under a contract with the Delaware 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.

II. HISTORY AND PLAN OF OPERATION

Milwaukee Casualty Insurance Co. is a Wisconsin-domiciled stock property and casualty insurance company licensed under ch. 611, Wis. Stat. The company was incorporated on September 28, 1973, as a wholly owned subsidiary of Milwaukee Insurance Company (MIC, formerly known as Milwaukee Mutual Insurance Company), a Wisconsin-domiciled stock property and casualty insurer. The company was initially incorporated under the name Milwaukee Guardian Insurance, Inc., and changed its name to Milwaukee Casualty Insurance Co. effective June 1, 1999.

Milwaukee Insurance Company also organized Milwaukee Safeguard Insurance Company (Milwaukee Safeguard) as a subsidiary insurer on January 25, 1982, and through year-end 1985, MIC was the direct parent of Milwaukee Casualty and Milwaukee Safeguard. In 1985, MIC established Milwaukee Insurance Holding Company, later renamed Milwaukee Insurance Group, Inc. (MIG), to serve as an intermediate holding company entity. Effective December 31, 1985, MIC contributed 100% of its directly held insurance subsidiaries including Milwaukee Casualty to MIG in exchange for 100% ownership of the issued and outstanding capital stock of MIG.

In November 1986, MIG issued additional shares of its common capital stock and conducted an initial public stock offering. Upon completion of the offering, approximately 65% of the common stock of MIG remained under the ownership of Milwaukee Insurance Company, and the remaining 35% was owned by public shareholders. Effective December 31, 1992, MIG acquired 100% of the capital stock of Alpha Property & Casualty Insurance Company (Alpha P&C), a Wisconsin-domiciled property and casualty insurer. MIG conducted a second public offering of 1,000,000 newly issued shares of MIG common stock in 1993, resulting in the reduction of Milwaukee Insurance Company's ownership interest of MIG to approximately 49%.

Trinity Universal Insurance Company (Trinity Universal) acquired all of the capital stock of MIG effective October 2, 1995. Trinity Universal is a Texas-domiciled property and casualty insurer wholly owned by Unitrin, Inc. Upon the change of control of MIG to Trinity Universal, the ultimate ownership and control of Milwaukee Casualty, Milwaukee Safeguard, and

Alpha P&C transferred to Unitrin, Inc. MIG was dissolved in 2001 and its assets and liabilities were merged into Trinity Universal. Upon the dissolution of MIG, Milwaukee Casualty became a directly held, wholly owned subsidiary of Trinity Universal.

Effective June 1, 2008, AmTrust Financial Services, Inc., purchased the Unitrin Business Insurance (UBI) commercial book of business and affiliated carriers from Unitrin, Inc. AmTrust Financial Services, Inc., acquired the renewal rights to the UBI book of business and certain legal entities and selected other assets and personnel that Unitrin, Inc., employed to write its UBI business. Unitrin, Inc., retained pre-closing loss and loss adjustment reserves. The companies acquired included Milwaukee Casualty, Security National Insurance Company, Trinity Universal Insurance Company of Kansas, Inc. (now known as AmTrust Insurance Company of Kansas, Inc.) and Trinity Lloyd's Insurance Company (now known as AmTrust Lloyd's Insurance Company of Texas). These companies entered into an intercompany reinsurance agreement with affiliates Technology Insurance Company, Inc. (domiciled in New Hampshire) and AmTrust International Insurance, Ltd. (domiciled in Bermuda) whereby Milwaukee Casualty ceded 20% and 70% of premiums and losses, respectively, as of December 31, 2014 (after cession of unaffiliated reinsurance). Subsequent amendments to the above quota share reinsurance agreements reduced the ceding percentage to AmTrust International Insurance, Ltd., to 60%, effective January 1, 2015, and 50%, effective January 1, 2016.

In 2014, the company wrote direct premium in the following states:

Minnesota	\$12,432,436	15.6%
Louisiana	11,211,373	14.1
Texas	8,128,121	10.2
Illinois	7,624,990	9.6
Idaho	3,867,082	4.9
Utah	3,771,615	4.7
Missouri	3,417,180	4.3
Wisconsin	2,722,510	3.4
Tennessee	2,696,787	3.4
Nevada	2,247,299	2.8
All others	<u>21,468,044</u>	<u>27.0</u>
Total	<u>\$79,587,437</u>	<u>100.0%</u>

The major products marketed by the company include worker's compensation, commercial auto liability and other liability – occurrence. The major products are marketed through independent brokers and agents.

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	\$ 1,243,443	\$	\$ 1,139,133	\$ 104,310
Allied lines	1,718,189		1,578,630	139,559
Commercial multiple peril	1,390,044		1,268,979	121,065
Inland marine	915,497		838,196	77,301
Worker's compensation	44,257,481	362,783	40,373,450	4,246,814
Other liability – occurrence	3,515,882		3,296,326	219,556
Products liability – occurrence	877,025		789,942	87,083
Commercial auto liability	21,265,031	5,158	19,191,443	2,078,746
Auto physical damage	4,268,044		3,876,427	391,617
Burglary and theft	62,184		55,966	6,218
Boiler and machinery	<u>74,618</u>	<u> </u>	<u>71,083</u>	<u>3,535</u>
Total All Lines	<u>\$79,587,437</u>	<u>\$367,941</u>	<u>\$72,479,575</u>	<u>\$7,475,803</u>

III. MANAGEMENT AND CONTROL

Board of Directors

The board of directors consists of five members. Each director is elected annually to serve a one-year term. Officers are elected at the board's annual meeting. Members of the company's board of directors are senior executive officers or board members of the parent company, AmTrust Financial Services, Inc., and may also be members of other boards of directors in the holding company group. The board members currently receive no compensation specific to their service on the Milwaukee Casualty board.

Currently the board of directors consists of the following persons:

Name and Residence	Principal Occupation	Term Expires
Donald Thomas DeCarlo New York, NY	Attorney (Self-Employed)	2016
Jeffrey Paul Leo New York, NY	President Milwaukee Casualty Insurance Co.	2016
Jay Jerome Miller New York, NY	Attorney (Self-Employed)	2016
Stephen Barry Ungar New York, NY	General Counsel and Secretary AmTrust Financial Services, Inc.	2016
Barry Dov Zyskind New York, NY	President, CEO and Director AmTrust Financial Services, Inc.	2016

Officers of the Company

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

Name	Office	2014 Compensation
Jeffrey Leo	President	\$45,852
Stephen Brandt	Vice President	23,539
Michael Saxon	Vice President	27,512
Harry Schlachter	Treasurer	7,088
Stephen Ungar	Secretary	10,245

Compensation for the officers noted above represents compensation allocated by AmTrust Financial Services, Inc., to Milwaukee Casualty based on the 2014 State of Wisconsin Report on Executive Compensation.

Committees of the Board

The company's bylaws allow for the formation of certain committees by the board of directors. Committees are composed of AmTrust Financial Services, Inc., directors and senior management. The committees at the time of the examination are listed below.

Executive Committee

Barry Zyskind
Jeffrey Leo

Workers' Compensation Committee

Barry Zyskind
Harry Schlachter
Stephen Ungar

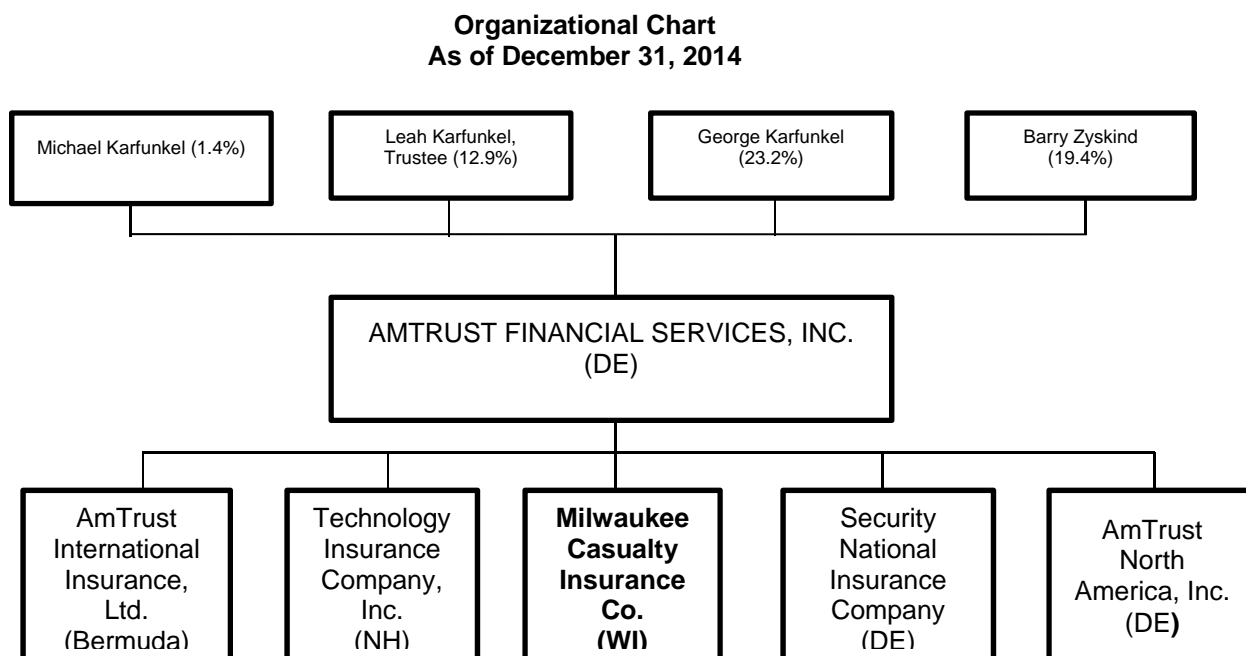
Investment Committee

Barry Zyskind
Harry Schlachter
Stephen Ungar

Examiners' review of Executive and Investment Committee records with company management indicated no evidence of committee chair appointment or committee minutes for the examination period. Company responses indicated that the Executive and Investment Committees have not met since their creation, since the board of directors utilizes Unanimous Written Consents to ensure all directors are involved in, and agree to, all decisions concerning the company's affairs. Accordingly, the company indicated the intent to dissolve these committees.

IV. AFFILIATED COMPANIES

Milwaukee Casualty is a member of a holding company system. The organizational chart below depicts the company relationships among the insurer affiliates in the group based on significant intercompany agreements. A brief description of the significant affiliates follows the organizational chart.



AmTrust Financial Services, Inc.

AmTrust Financial Services, Inc. (AFSI) is a multinational property and casualty holding company. Through its wholly owned insurance subsidiaries, AFSI provides specialty property and casualty insurance focusing on worker's compensation and commercial package coverage for small business, specialty risk and extended warranty coverage, and property and casualty coverage for middle-market business. AFSI also provides reinsurance, primarily on personal and commercial automotive business. AmTrust Financial Services, Inc., is publicly traded on the NASDAQ Global Market under the symbol AFSI.

As of December 31, 2014, the audited financial statements of AFSI reported assets of \$13.85 billion, liabilities of \$11.65 billion, and total stockholders' equity of \$2.20 billion. Operations for 2014 produced net income of \$447 million on net premium written of \$3.96 billion.

Technology Insurance Company, Inc.

Technology Insurance Company, Inc. (TIC) is a New Hampshire-domiciled multi-line property and casualty insurer licensed in 49 states and the District of Columbia. TIC writes business in three segments: small commercial business, specialty risk and extended warranty, and specialty program business, which consists of worker's compensation, general liability, commercial auto liability and commercial property coverage.

As of December 31, 2014, the audited financial statements of TIC reported assets of \$1.50 billion, liabilities of \$1.02 billion, and policyholder surplus of \$0.48 billion. Operations for 2014 produced net income of \$21.4 million on net premium written of \$697 million.

AmTrust International Insurance, Ltd.

AmTrust International Insurance, Ltd. (AmTrust International) is a wholly owned subsidiary of AmTrust Financial Services, Inc., incorporated in Bermuda. AmTrust International reinsures AFSI's business in four segments: small commercial business, specialty risk and extended warranty, specialty program business, and personal lines reinsurance.

As of December 31, 2014, the audited financial statements of AmTrust International reported assets of \$3.07 billion, liabilities of \$2.38 billion, and total stockholders' equity of \$695 million. Operations for 2014 produced net income of \$89 million on net premium earned of \$1.41 billion.

Agreements with Affiliates

Milwaukee Casualty is a party to the following affiliate management, agency and tax allocation agreements. Major affiliate reinsurance agreements are described in Section V – Reinsurance.

Intercompany Management Agreement with AmTrust Financial Services, Inc.

Effective June 1, 2008, Milwaukee Casualty entered into a management service agreement with AmTrust Financial Services, Inc. Under the agreement, AFSI provides a variety of financial, accounting, corporate and operational management services as required by Milwaukee Casualty directly or through any of AFSI's affiliates, advisors or representatives.

The agreement was amended as of November 20, 2009, to require that Milwaukee Casualty shall pay AFSI a fee in the amount equal to the lesser of 2% of the company's total written premium or \$500,000, subject to the AFSI discretionary right to waive any or all of the fees due or owed within 30 days of the end of each calendar quarter.

Management and Agency Agreement with AmTrust North America, Inc.

Effective June 1, 2008, Milwaukee Casualty entered into a service agreement with AmTrust North America, Inc. (ANA). Under the agreement, Milwaukee Casualty appoints ANA as its agent to solicit and accept applications for policies, perform certain management service processing functions and administer and adjust policy-related claims in conformance with the laws and regulations pertaining to the appointment of general agents and administration of the insurance business.

The agreement was amended as of June 30, 2011, to update the Commission Schedule requiring a flat 10% commission on all business written plus an amount equal to the commission amounts payable to the Producing Agents for all business written. The parties may agree in writing to exclude either or both of the above commission fees when such business relates to a particular program of business. Premium billing and collection provisions were updated to require that premium due under policies and collected by ANA shall be deposited within five business days of receipt into a fiduciary bank account established and maintained by ANA.

Tax Allocation Agreement with AmTrust Financial Services, Inc.

Effective June 1, 2008, Milwaukee Casualty entered into a tax allocation agreement with AmTrust Financial Services, Inc. Under the agreement, Milwaukee Casualty appoints AFSI as its agent for purposes of filing a consolidated tax return on behalf of AFSI and its subsidiaries. The agreement provides the basis for the method of settlement of federal income tax payments and refunds within the AmTrust Financial Group.

The agreement was amended effective January 1, 2011. Tax payment provisions were amended to provide that Milwaukee Casualty remit to AFSI any amounts determined to be due in accordance with the agreement at such time that AFSI is obligated to make estimated or

final payments pursuant to the agreement. Accounting and settlement provisions of the agreement were amended to provide that payments and remittances made pursuant to the agreement shall be made during the first quarter of the year following the subject tax year and shall be accompanied by reconciliations showing the amount due, underlying calculations and any additional information reasonably required by either party relating to such payments and remittances.

V. REINSURANCE

The company's reinsurance portfolio and strategy is described below. The company's reinsurance contracts contained proper insolvency provisions.

Affiliated Ceded Reinsurance

Effective June 1, 2008, Milwaukee Casualty entered into a 90% Quota Share Intercompany Reinsurance Agreement with AmTrust International Insurance, Ltd., and Technology Insurance Company, Inc. Pursuant to this agreement, Milwaukee Casualty will (1) cede 100% of the ultimate net loss related to UBI unearned premium reserve to AmTrust International; (2) cede 70% of net premium written on policies issued on or after the effective date to AmTrust International; and (3) cede 20% of net premium written on policies issued on or after the effective date to TIC. Amendments to the above Quota Share Reinsurance Agreement reduced the percentage of premium ceded by Milwaukee Casualty to AmTrust International to 60%, effective January 1, 2015, and 50%, effective January 1, 2016.

External Reinsurance

The company is a participant in the ceded reinsurance program for the AmTrust Financial Group Companies. The retentions and coverages of the reinsurance program are as follows:

Worker's Compensation Excess of Loss

Layer:	First XOL	Second XOL	First Cat	Second Cat	Third Cat
Retention:	\$5,000,000	\$10,000,000	\$20,000,000	\$70,000,000	\$381,700,000
Limit:	\$5,000,000	\$10,000,000	\$50,000,000	\$271,000,000	\$128,300,000

Note: A Catastrophe Bond of \$40M excess of \$341.7M sits between the 2nd and 3rd Cat.

Casualty Excess of Loss

Layer:	First Excess	Second Excess	Third Excess
Retention:	\$2,500,000	\$5,000,000	\$12,000,000
Limit:	\$2,500,000	\$7,000,000	\$28,000,000

Commercial Casualty Umbrella Quota Share

Layer:	First Excess	Second Excess
Retention:	30% of \$5,000,000	\$0
Limit:	70% of \$5,000,000	\$5,000,000

The First Excess layer is for policies with a limit less than or equal to \$5 million. The Second Excess layer is for policies with a limit greater than \$5 million.

Property per Risk Excess of Loss

Layer:	First Excess	Second Excess	Third Excess
Retention:	\$2,000,000	\$5,000,000	\$20,000,000
Limit:	\$3,000,000	\$15,000,000	\$10,000,000

Property Catastrophe Excess of Loss

Layer:	First Excess	Second Excess	Third Excess
Retention:	\$20,000,000	\$70,000,000	\$200,000,000
Limit:	\$50,000,000	\$130,000,000	\$160,000,000

Layer:	Cat Bond
Retention:	\$360,000,000
Limit:	\$40,000,000

Equipment Breakdown

The AmTrust Financial Group Companies are subject to a 100% quota share agreement that provides up to \$100,000,000 any one accident, any one policy.

Employment Practices Liability

The AmTrust Financial Group Companies are subject to a 100% quota share agreement that provides up to \$1,000,000 per policy per occurrence.

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.

(Note: Financial data reflects balances as filed and does not contain adjustments for immaterial rounding differences.)

Milwaukee Casualty Insurance Co.
Assets
As of December 31, 2014

	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	\$13,475,512	\$	\$13,475,512
Preferred stocks	400,000		400,000
Cash, cash equivalents, and short-term investments	7,779,696		7,779,696
Other invested assets	100,000		100,000
Investment income due and accrued	166,236		166,236
Premiums and considerations:			
Uncollected premiums and agents' balances in course of collection	5,464,406	1,776,801	3,687,605
Deferred premiums, agents' balances, and installments booked but deferred and not yet due	23,068,786		23,068,786
Reinsurance:			
Amounts recoverable from reinsurers	639,036		639,036
Other amounts receivable under reinsurance contracts	30,061		30,061
Net deferred tax asset	370,001		370,001
Guaranty funds receivable or on deposit	<u>11,206</u>	<u> </u>	<u>11,206</u>
Total Assets	<u>\$51,504,939</u>	<u>\$1,776,801</u>	<u>\$49,728,138</u>

Milwaukee Casualty Insurance Co.
Liabilities, Surplus, and Other Funds
As of December 31, 2014

Losses		\$ 4,271,064
Loss adjustment expenses		646,418
Commissions payable, contingent commissions, and other similar charges		277,505
Other expenses (excluding taxes, licenses, and fees)		(1,290,924)
Taxes, licenses, and fees (excluding federal and foreign income taxes)		872,252
Current federal and foreign income taxes		520,532
Unearned premiums		3,472,968
Advance premium		341,225
Dividends declared and unpaid:		
Policyholders		546,592
Ceded reinsurance premiums payable (net of ceding commissions)		1,204,557
Funds held by company under reinsurance treaties		16,402,910
Provision for reinsurance		13,065
Payable to parent, subsidiaries, and affiliates		1,416,014
Write-ins for liabilities:		
Surcharges payable		1,454,601
Deferred ceding commissions		<u>1,866,786</u>
 Total liabilities		 32,015,565
 Common capital stock	 \$4,000,000	
Gross paid in and contributed surplus	6,697,829	
Unassigned funds (surplus)	<u>7,014,744</u>	
 Surplus as regards policyholders		 <u>17,712,573</u>
 Total Liabilities and Surplus		 <u>\$49,728,138</u>

**Milwaukee Casualty Insurance Co.
Summary of Operations
For the Year 2014**

Underwriting Income		
Premiums earned		\$6,015,560
Deductions:		
Losses incurred	\$ 3,683,063	
Loss adjustment expenses incurred	628,577	
Other underwriting expenses incurred	<u>(3,238,846)</u>	
Total underwriting deductions		<u>1,072,794</u>
Net underwriting gain (loss)		4,942,766
Investment Income		
Net investment income earned	553,167	
Net realized capital gains (losses)	<u>68</u>	
Net investment gain (loss)		553,234
Other Income		
Net gain (loss) from agents' or premium balances charged off	(20,282)	
Finance and service charges not included in premiums	<u>10,080</u>	
Total other income		<u>(10,202)</u>
Net income (loss) before dividends to policyholders and before federal and foreign income taxes		5,485,799
Dividends to policyholders		<u>335,071</u>
Net income (loss) after dividends to policyholders but before federal and foreign income taxes		5,150,728
Federal and foreign income taxes incurred		<u>1,925,014</u>
Net Income		<u><u>\$3,225,714</u></u>

Milwaukee Casualty Insurance Co.
Cash Flow
For the Year 2014

Premiums collected net of reinsurance		\$(4,721,218)
Net investment income		678,871
Miscellaneous income		<u>(10,202)</u>
Total		(4,052,549)
Benefit- and loss-related payments	\$ 2,668,847	
Commissions, expenses paid, and aggregate write-ins for deductions	(6,432,354)	
Dividends paid to policyholders	405,213	
Federal and foreign income taxes paid (recovered)	<u>857,519</u>	
Total deductions		<u>(2,500,776)</u>
Net cash from operations		(1,551,774)
Proceeds from investments sold, matured, or repaid:		
Bonds	5,588,837	
Cost of investments acquired (long-term only):		
Bonds	\$ 974,468	
Miscellaneous applications	<u>1,392,197</u>	
Total investments acquired	<u>2,366,665</u>	
Net cash from investments		3,222,172
Cash from financing and miscellaneous sources:		
Other cash provided (applied)	<u>2,436,101</u>	
Net cash from financing and miscellaneous sources		<u>2,436,101</u>
Reconciliation:		
Net change in cash, cash equivalents, and short-term investments		4,106,500
Cash, cash equivalents, and short-term investments:		
Beginning of year		<u>3,673,195</u>
End of Year		<u>\$ 7,779,695</u>

**Milwaukee Casualty Insurance Co.
Compulsory and Security Surplus Calculation
December 31, 2014**

Assets		\$49,728,138
Less liabilities		<u>32,015,565</u>
Adjusted surplus		17,712,573
Annual premium:		
Net premiums written	\$7,475,803	
Add premiums ceded to unauthorized reinsurers	54,342	
Less dividends to policyholders	335,071	
Factor	<u>20%</u>	
Compulsory surplus (subject to a minimum of \$2 million)		<u>2,000,000</u>
Compulsory Surplus Excess (or Deficit)		<u>\$15,712,573</u>
Adjusted surplus (from above)		\$17,712,573
Security surplus: (140% of compulsory surplus, factor reduced 1% for each \$33 million in premium written in excess of \$10 million, with a minimum factor of 110%)		<u>2,800,000</u>
Security Surplus Excess (or Deficit)		<u>\$14,912,573</u>

**Milwaukee Casualty Insurance Co.
Analysis of Surplus
For the Four-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
Surplus, beginning of year	\$14,911,917	\$13,420,219	\$12,511,735	\$11,598,507
Net income	3,225,714	1,670,598	1,519,339	936,260
Change in net unrealized capital gains/losses	11	(11)		(18,197)
Change in net deferred income tax	117,207	471,951	(503,059)	47,631
Change in nonadmitted assets	(640,717)	(540,828)	(107,053)	(55,142)
Change in provision for reinsurance	98,438	(110,011)	(744)	2,677
Capital changes:				
Transferred from surplus				1,000,000
Surplus adjustments:				
Transferred to capital	_____	_____	_____	(1,000,000)
Surplus, End of Year	<u>\$17,712,570</u>	<u>\$14,911,917</u>	<u>\$13,420,219</u>	<u>\$12,511,735</u>

On November 1, 2010, the company adopted an amendment to its Articles of Incorporation increasing the outstanding number of shares from 1,500,000 to 2,000,000, par value of \$2 each. The amendment was filed with this office on December 28, 2010. The company was notified of its filing acceptance on February 17, 2011. By joint written consent of the board of directors and the sole shareholder of the company, \$1,000,000 was transferred from unassigned funds (surplus) to the company's common capital stock account to support the 2,000,000 shares authorized, issued and outstanding.

**Milwaukee Casualty Insurance Co.
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. Unusual IRIS results are denoted with asterisks and discussed below the table.

	Ratio	2014	2013	2012	2011	2010
#1	Gross Premium to Surplus	451%	306%	218%	131%	127%
#2	Net Premium to Surplus	42	29	21	12	11
#3	Change in Net Premiums Written	74*	56*	84*	16	-32
#4	Surplus Aid to Surplus	2	1	1	1	1
#5	Two-Year Overall Operating Ratio	30	24	0	17	62
#6	Investment Yield	2.5*	3.0*	2.7*	3.3	2.7*
#7	Gross Change in Surplus	19	11	7	8	6
#8	Change in Adjusted Surplus	19	11	7	8	6
#9	Liabilities to Liquid Assets	42	55	47	30	36
#10	Agents' Balances to Surplus	21	23	17	11	21
#11	One-Year Reserve Development to Surplus	0	3	0	1	-1
#12	Two-Year Reserve Development to Surplus	3	1	0	-1	-2
#13	Estimated Current Reserve Deficiency to Surplus	6	4	1	-4	-5

The exceptional results for ratio No.3, Change in Net Premiums Written, are a result of the growth in direct written premium, primarily driven by the increased premium production during the five-year history period in the worker's compensation and commercial auto lines of business. AFSI's primary focus has been on the growth of these products.

The exceptional results for ratio No 6, Investment Yield, overall reflect the relatively low interest rate environment. The investment asset portfolio is heavily comprised of some low yielding U.S. Treasury notes and state-issued securities. The ratio is also decreased by a very high concentration of cash and related investment income. However, the yields are not significantly below the low end of the range.

Growth of Milwaukee Casualty Insurance Co.

Year	Admitted Assets	Liabilities	Surplus as Regards Policyholders	Net Income
2014	\$49,728,138	\$32,015,565	\$17,712,573	\$3,225,714
2013	37,356,609	22,444,692	14,911,917	1,670,598
2012	30,079,540	16,659,321	13,420,219	1,519,339
2011	21,493,459	8,981,724	12,511,735	936,260
2010	20,646,306	9,047,799	11,598,508	793,180

Year	Gross Premium Written	Net Premium Written	Premium Earned	Loss and LAE Ratio	Expense Ratio	Combined Ratio
2014	\$79,955,378	\$7,475,803	\$6,015,560	71.7%	-43.2%	28.5%
2013	45,555,997	4,305,848	3,644,615	79.1	-32.1	47.0
2012	29,259,265	2,768,671	2,082,327	63.5	-51.1	12.4
2011	16,369,277	1,503,302	1,406,293	72.1	-41.3	30.8
2010	14,777,184	1,301,041	1,484,723	61.7	-33.5	28.2

The significant trend increase in the above balances reflects the impact of the direct written premiums in worker's compensation and the commercial auto programs. AFSI, in general, has grown through acquisitions and organic growth. Both of these avenues of premium have been spread across multiple carriers including Milwaukee Casualty. The largest increase in written premium has been in worker's compensation. The percentage of worker's compensation premium to total premium has increased from 33% in 2010 to 35%, 36%, 41% and 56% in subsequent years

The negative expense ratios are driven by the ceding commission related to the internal quota share reinsurance agreements. The agreements state that Milwaukee Casualty will receive ceding commissions of 37.1% of ceded net written premium from AmTrust International and 31.1% from Technology Insurance Company, Inc. This ceding commission has exceeded the direct underwriting expenses incurred in each of the years under examination. The amount exceeding the direct expenses will reduce as the cession percentage to AmTrust International drops from 70% (2014) to 60% (2015) and then 50% (2016).

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 was one specific comment and 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. Fidelity Bond—It is recommended that the company's parent amend its fidelity bond policy to include a listing of all subsidiaries covered by the policy.

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.

Escheat Procedures

Company responses indicated that examination requests for escheat procedures and filings could not be provided due to company-wide in-process review and revamping of escheat procedures in conjunction with recent reorganization. It is recommended that the company complete its review and update of escheat procedures to provide reporting and compliance with escheat regulations under Unclaimed Property Statutes, ch. 177, Wis. Stat.

Board of Director Committees

Milwaukee Casualty board of directors minutes for 2011, 2012 and 2104 recorded the appointment of two members to the Executive Committee, while the Milwaukee Casualty bylaws require a minimum of three members, per Article V – Section 1; in addition, s. 611.56 (1), Wis. Stat., also requires a minimum of three directors on a board committee. In that regard, Harry Schlachter-Treasurer, who is not a company director, is a member of the Investment and Workers' Compensation Committees. In addition, the minutes of 2013 and 2015 did not record Executive Committee appointments, while the minutes of 2013 did not record Investment Committee appointments. Examination requests for Executive and Investment Committee minutes since the prior examination indicated that there have been no meetings since the acquisition by AFSI in 2008. Company follow-up indicated that the board of directors utilizes Unanimous Written Consents so that all directors are involved and agree to all decisions concerning company affairs. It is recommended that the company: (a) review the role of its Executive and Investment Committees and either utilize them as planned, including ensuring compliance with company bylaws and maintenance of committee meeting minutes, or dissolve such committees, and (b) appoint committee members in accordance with company bylaws and the requirements of s. 611.56 (1), Wis. Stat.

Executive Compensation

Company responses concerning the review of the Milwaukee Casualty Report on Executive Compensation filing for 2014 indicated that the report does not include stock awards and uncertainty as to whether balances used were pre or post 401K contributions. Compensation reported per the Report on Executive Compensation should include all gross, direct and indirect remuneration paid and accrued during the report year for the benefit of the individual, including wages, salaries, bonus, retirement benefits, deferred compensation, commissions, fees and other forms of personal compensation. It is recommended that the company review its Report on Executive Compensation filing procedures and comply with s. 611.63 (4), Wis. Stat., by reporting all compensation received by officers or employees in accordance with the instructions stated on the Report on Executive Compensation.

Independent Actuary Review

INS Consultants, Inc. (INS) was retained by the Delaware Department of Insurance to perform actuarial services for the multi-state coordinated financial condition examination of AmTrust Financial Services, Inc., as of December 31, 2014. Milwaukee Casualty was included in the Security National Insurance Company subgroup under the above coordinated examination.

The independent actuary's report noted several findings and recommendations to strengthen controls as it relates to:

- Actuarial Reserving Risks
- Actuarial Pricing Risks
- Additional Actuarial Prospective Reserving and Pricing Risks

These recommendations were included in the DDOI Exit Conference Memorandum addressed specifically to Security National Insurance Company management. However, they apply equally to Milwaukee Casualty, since they both operate under the same processes and controls.

It is recommended that the company review and comply with all actuarial reserving and pricing recommendations, which also apply to Milwaukee Casualty, resulting from the independent actuary's review performed in conjunction with the Security National Insurance Company subgroup coordinated examination.

VIII. CONCLUSION

Milwaukee Casualty Insurance Co. is a Wisconsin-domiciled stock property and casualty insurance company. The company was initially incorporated under the name Milwaukee Guardian Insurance, Inc., in 1973 and changed its name to Milwaukee Casualty Insurance Co. effective June 1, 1999.

The company was originally a directly owned subsidiary of Milwaukee Insurance Company. In 1985, Milwaukee Insurance Company contributed all of the capital stock of the company to the MIC holding company subsidiary, Milwaukee Insurance Group, Inc. Effective October 2, 1995, Trinity Universal Insurance Company, a subsidiary of Unitrin, Inc., purchased all of the capital stock of Milwaukee Insurance Group, Inc., and thereby acquired ownership and control of Milwaukee Casualty. In 2001, MIG was dissolved and Milwaukee Casualty became a directly held, wholly owned subsidiary of Trinity Universal Insurance Company.

Effective June 1, 2008, AmTrust Financial Services, Inc., purchased the Unitrin Business Insurance (UBI) commercial book of business and affiliated carriers from Unitrin, Inc. AFSI acquired the renewal rights to the UBI book of business and certain legal entities, including Milwaukee Casualty. The company entered into an intercompany reinsurance agreement with affiliates, Technology Insurance Company, Inc. (domiciled in New Hampshire) and AmTrust International Insurance, Ltd. (domiciled in Bermuda), whereby they ceded 20% and 70% of premiums and losses as of the exam date, respectively. The percentage ceded to AmTrust International Insurance, Ltd., was subsequently reduced by amendments to 60%, effective January 1, 2015, and 50%, effective January 1, 2016.

Milwaukee Casualty does not have any employees, and all operations of the company are performed by affiliates within the AFSI holding company system pursuant to intercompany services and reinsurance agreements. The company is licensed in 47 states and the District of Columbia as of December 31, 2014, and writes worker's compensation, other liability – occurrence and commercial auto liability.

The current examination resulted in four recommendations and did not make any reclassification of account balances or adjustments to surplus as reported by the company in its

year-end 2014 statutory financial statements. The examination determined that, as of December 31, 2014, the company had admitted assets of \$49,728,138, liabilities of \$32,015,565, and policyholders' surplus of \$17,712,573.

IX. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 25 - Escheat Procedures—It is recommended that the company complete its review and update of escheat procedures to provide reporting and compliance with escheat regulations under Unclaimed Property Statutes, ch. 177, Wis. Stat.
2. Page 25 - Board of Director Committees—It is recommended that the company: (a) review the role of its Executive and Investment Committees and either utilize them as planned, including ensuring compliance with company bylaws and maintenance of committee meeting minutes, or dissolve such committees, and (b) appoint committee members in accordance with company bylaws and the requirements of s. 611.56 (1), Wis. Stat.
3. Page 26 - Executive Compensation—It is recommended that the company review its Report on Executive Compensation filing procedures and comply with s. 611.63 (4), Wis. Stat., by reporting all compensation received by officers or employees in accordance with the instructions stated on the Report on Executive Compensation.
4. Page 26 - Independent Actuary Review—It is recommended that the company review and comply with all actuarial reserving and pricing recommendations, which also apply to Milwaukee Casualty, resulting from the independent actuary's review performed in conjunction with the Security National Insurance Company subgroup coordinated 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
David Jensen	IT Specialist
Jerry DeArmond	Reserve Specialist

Respectfully submitted,

Tom M. Janke
Examiner-in-Charge