

Report of the Examination of
Mutual of Wausau Insurance Corporation
Wausau, Wisconsin
As of December 31, 2018

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State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

Tony Evers, Governor
Mark V. Afable, Commissioner

Wisconsin.gov

December 10, 2019

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Honorable Mark V. Afable
Commissioner of Insurance
State of Wisconsin
125 South Webster Street
Madison, Wisconsin 53703

Commissioner:

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

MUTUAL OF WAUSAU INSURANCE CORPORATION
Wausau, Wisconsin

and this report is respectfully submitted.

I. INTRODUCTION

The previous examination of Mutual of Wausau Insurance Corporation (the company or MWIC) was conducted in 2015 as of December 31, 2014. The current examination covered the intervening period ending December 31, 2018, and included a review of such 2019 transactions as deemed necessary to complete the examination.

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

All accounts and activities of the company were considered in accordance with the risk-focused examination process. This may include assessing significant estimates made by

management and evaluating management's compliance with statutory accounting principles, annual statement instructions, and Wisconsin laws and regulations. The examination does not attest to the fair presentation of the financial statements included herein. If during the course of the examination an adjustment is identified, the impact of such adjustment will be documented separately at the end of the "Financial Data" section in the area captioned "Reconciliation of Surplus per Examination."

Emphasis was placed on those areas of the company's operations accorded a high priority by the examiner-in-charge when planning the examination. Special attention was given to the action taken by the company to satisfy the recommendations and comments made in the previous examination report.

The company is annually audited by an independent public accounting firm as prescribed by s. Ins 50.05, Wis. Adm. Code. An integral part of this compliance examination was the review of the independent accountant's work papers. Based on the results of the review of these work papers, alternative or additional examination steps deemed necessary for the completion of this examination were performed. The examination work papers contain documentation with respect to the alternative or additional examination steps performed during the course of the examination.

II. HISTORY AND PLAN OF OPERATION

The company was originally organized as a town mutual insurance company on January 1, 1998, with the consolidation of two town mutuals: Wausau Mutual Insurance Company, organized in 1875, and Stettin Mutual Insurance Company, organized in 1876 under provisions of the then existing Wisconsin Statutes. The company assumed the name Wausau Stettin Mutual Insurance Company. Effective January 1, 2011, the company converted from a town mutual insurance company to a non-assessable mutual insurance company under Ch. 611, Wis. Stat., and changed its name to that presently used. On October 1, 2011, Manitowoc Mutual Insurance Company was merged into MWIC, with the company being the surviving entity. Effective January 1, 2015, the company entered into an affiliation agreement with another domestic mutual insurer, Homestead Mutual Insurance Company (HMIC). While the two companies remain as separate entities, Mutual of Wausau Insurance Corporation maintains effective control of Homestead Mutual Insurance Company by virtue of appointing a majority of the directors on the Homestead Mutual Insurance Company board (five of nine). In connection with the affiliation, the companies entered into a Management Agreement under which MWIC provides certain services and advice to HMIC, including, but not limited to, information technology services, investment advice, human resources, as well as a Reinsurance Pooling Agreement that pools the companies' premiums and claims experience to permit the more efficient use of capital and greater efficiencies in contracting for third-party reinsurance.

MWIC is licensed and writes all of its premiums exclusively in Wisconsin. The company is primarily a personal lines writer, with the highest volume lines of business being homeowner's multi-peril and farmowner's multi-peril, with 61% and 27% of total direct premiums written, respectively. The company utilizes a network of approximately 75 independent agencies to market and acquire business. The company is licensed to write business in all counties of the state of Wisconsin. The company is subject to a Stipulation and Order dated March 3, 2011, stating that the company shall: 1) maintain a minimum permanent surplus of \$2 million; 2) limit its territory to the state of Wisconsin; 3) assure that aggregate losses resulting from the umbrella excess liability program do not exceed \$25,000 in a calendar year; 4) maintain compulsory

surplus in an amount equal to 20% of net premiums written for all annual statement lines of business during the preceding 12-month period; and 5) submit all changes to its reinsurance program 30 days prior to the effective date of the changes, which are subject to disapproval by the Commissioner.

The following table is a summary of the net insurance premiums written by the company in 2018. 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	\$ 493,894	\$ 174,838	\$ 199,174	\$ 469,558
Allied lines	740,840	262,256	298,761	704,335
Farmowners multiple peril	3,710,350	1,048,740	1,448,305	3,310,785
Homeowners multiple peril	8,352,759	1,445,795	3,093,419	6,705,135
Commercial multiple peril	215,630	370,320	143,419	442,531
Other liability – occurrence	<u>93,680</u>	<u>23,478</u>	<u>115,343</u>	<u>1,815</u>
Total All Lines	<u>\$13,607,153</u>	<u>\$3,325,427</u>	<u>\$5,298,421</u>	<u>\$11,634,159</u>

III. MANAGEMENT AND CONTROL

Board of Directors

The board of directors consists of nine members. Directors are divided into three classes. One class of directors is elected annually to serve a three-year term. Officers are elected at the board's annual meeting. The board members currently receive \$450 for the annual meeting, varying amounts for attendance at other related meetings or events, and mileage reimbursement of \$0.58/mile for serving on the board.

Currently the board of directors consists of the following persons:

Name and Residence	Principal Occupation	Term Expires
Mark Ellenbecker Wausau, Wisconsin	Carpenter	2022
Bill Rauen Hamburg, Wisconsin	Retired	2022
Charlie Lang Edgar, Wisconsin	Farmer	2021
Faye Zernicke Wausau, Wisconsin	Program Technician	2021
Jon Petroskey Antigo, Wisconsin	Fire Chief	2022
Judith Smith Antigo, Wisconsin	Real Estate	2020
Raynard Zunker Wausau, Wisconsin	Farmer	2020
Bruce Bartell Mosinee, Wisconsin	Business Owner	2020
Todd Toppen* Wausau, Wisconsin	Chief Financial Officer - Banking	2021

*Todd Toppen replaced Robert Geiger who retired in 2018.

Officers of the Company

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

Name	Office	2018 Compensation
Mark Splinter	President/Chief Executive Officer	\$286,396
Raynard Zunker	Secretary/Treasurer	11,712
Mark Ellenbecker	Chairman of the Board	11,700

Committees of the Board

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

Executive Committee

Mark Ellenbecker, Chair
Jon Petroskey
Raynard Zunker

Nominating Committee

Todd Toppen, Chair
Charlie Lang
Faye Zernicke

Compensation Committee

Mark Ellenbecker, Chair
Bruce Bartell
Jon Petroskey
Raynard Zunker

Long-Range Committee

Mark Ellenbecker, Chair
Jon Petroskey
Bill Rauen
Raynard Zunker

Investment Committee

Mark Ellenbecker, Chair
Todd Toppen
Jon Petroskey
Raynard Zunker

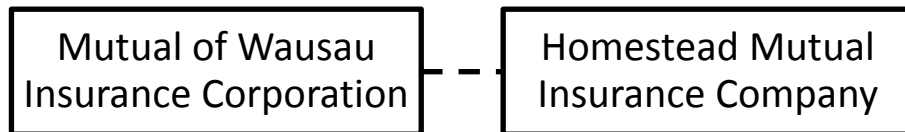
Governance Committee

Mark Ellenbecker, Chair
Jon Petroskey
Raynard Zunker

IV. AFFILIATED COMPANIES

Mutual of Wausau Insurance Corporation is a member of a holding company system. Effective January 1, 2015 MWIC entered into an affiliation agreement with HMIC. MWIC maintains effective control of HMIC by virtue of appointing a majority of the directors on the HMIC board. The organizational chart below depicts the relationship between the two companies. A brief description of HMIC follows the organizational chart.

Organizational Chart As of December 31, 2018



Homestead Mutual Insurance Company

Homestead Mutual Insurance Company is an insurance company that is primarily a personal lines writer. HMIC was organized in 1873 as Vinland Town Insurance Company. The company went through three mergers since its inception. On January 1, 2015, the company converted from a town mutual insurance company to a non-assessable mutual insurance company under Ch. 611, Wis. Stat., and simultaneously entered into an affiliation agreement with MWIC. As of December 31, 2018, the audited financial statements of HMIC reported assets of \$10,740,916, liabilities of \$2,615,117, and surplus as regards to policyholders of \$8,125,799. Operations for 2018 produced net income of \$603,610.

Affiliation Agreement

Effective January 1, 2015, in conjunction with HMIC's conversion to a domestic mutual company, the company entered into an affiliation agreement with HMIC. Under the terms of the agreement, HMIC updated its articles of incorporation and bylaws, giving MWIC the ability to nominate the majority of HMIC's board of directors. In connection with the companies'

affiliation, MWIC and HMIC entered into a Management Agreement, a Reinsurance Pooling Agreement, and Reinsurance Allocation Agreement. The intent of affiliation is to achieve a greater spread of risk through pooling operations and to gain efficiencies of operations by combining certain activities.

Management Agreement

Effective January 1, 2015, pursuant to the Affiliation Agreement between the company and HMIC, the companies entered into a Management Agreement to create efficiencies in operations. According to the Management Agreement, both companies will provide to each other, from time to time, services such as reinsurance pricing and procurement, investment services, actuarial analysis, underwriting, human resources, claims management and settlement, and other services on an as-needed basis. The company receiving the services covered under this agreement will reimburse the other company for all costs and expenses incurred.

Reinsurance Pooling Agreement

Effective January 1, 2015, pursuant to the Affiliation Agreement between the company and HMIC, the parties entered into a Reinsurance Pooling Agreement to pool their respective insurance operations in order to provide a more efficient and economical method of operating their insurance business and to stabilize their underwriting results. MWIC makes all appropriate cessions of policies and contracts of insurance, including policies and contracts assumed from Homestead, to third party reinsurers. Reinsurance premium ceded and reinsurance recoveries from third party reinsurers are allocated in accordance with the terms and conditions included in the Reinsurance Allocation Agreement between the parties.

Under the terms of the agreement, the companies pool all premiums written on in-force policies existing on and after January 1, 2015, and allocate to each party its proportional share of the pooled underwriting results in accordance with a provisional participation percentage. This provisional participation rate is the percentage of total written premiums that each company has in force as of the beginning of business on January 1 of each year, as compared to the combined total written premiums that the two companies have in force as of the beginning of business on January 1 of that year. In a final adjustment, the pool participation for each year

shall be the percentage of the total written premiums for each company as of the end of business of December 31 of that year, as compared to the combined total written premiums for the two companies as of the end of business on December 31 of that year. Effective January 1, 2017, the agreement was amended to change the basis of calculation for the provisional participation rate to total direct premium and for the final adjustment rate to total direct premium earned.

Reinsurance Allocation Agreement

In conjunction with the Reinsurance Pooling Agreement, MWIC and HMIC entered into a Reinsurance Allocation Agreement. Under this agreement, the companies agree that, if an occurrence covered under reinsurance involves both companies, each company's retention for that occurrence and the aggregate limit of liability available from reinsurers is proportionate to the amount of applicable claims, including allocated and unallocated loss adjustment expenses from each. The amount of loss retained by each company under the reinsurance is reduced to the percentage of loss borne by each company to the total of all losses contributing to the occurrence. This agreement also states that, for reinsurance premiums ceded, each company is only responsible for its share of the reinsurance premium in the same proportion as the company subject premiums to the reinsurance agreement bear to the total subject premiums. Any profit commission or profit sharing due under a reinsurance agreement is also apportioned to each company in the same proportion as the company subject premium to the reinsurance agreement bear to the total subject premiums.

V. REINSURANCE

The company's reinsurance portfolio and strategy are described below. Mutual of Wausau Insurance Corporation makes all reinsurance placements, and the premiums and recoveries are allocated between MWIC and HMIC. There is currently one ceding treaty with seven coverage sections. The treaty contained proper insolvency provisions.

Reinsurer: Wisconsin Reinsurance Corporation
Effective Date: January 1, 2019 to January 1, 2021
Termination Provisions: Either party may terminate the contract as of any subsequent January 1 by giving the other party at least 90 days' advance notice in writing

The coverages provided under this treaty are summarized as follows:

1. Type: Combination Umbrella Quota Share and Excess of Loss
Scope: All business written by the Company classified as Umbrella Liability
Part 1, Quota Share of first \$1,000,000 limit of liability
Retention: 1.00% of each loss occurrence of the first \$1,000,000
Coverage: 99.0% of each loss occurrence, including loss adjustment expense, on the business covered by this Part, subject to a maximum limit of liability of \$990,000 on each loss occurrence
Ceding commission: 27.50%
Part 2, 100.0% of \$4,000,000 in excess of \$1,000,000 each loss occurrence
Retention: \$1,000,000 of each loss occurrence
Coverage: 100.0% of each and every loss, including loss adjustment expense, in excess of a net retention of \$1,000,000, subject to the reinsurer's limit of liability of 100.0% of \$4,000,000 of each loss occurrence
2. Type: First Multi Line Per Risk Excess
Scope: All business written by the company classified as property, casualty, or liability business
Multi Line Per Risk - Property
Retention: \$150,000 each and every loss

- Coverage: \$150,000 each and every loss, including loss adjustment expense, in excess of the retention
- Multi Line Per Risk- Casualty or Liability
- Retention: \$75,000 each and every loss
- Coverage: \$225,000 each and every loss, including loss adjustment expense, in excess of the retention
3. Type: Second Multi Line Per Risk Excess
- Scope: All business written by the company classified as property, casualty, or liability business
- Second Multi Line Per Risk - Property
- Retention: \$300,000 each and every loss
- Coverage: \$700,000 each and every loss, including loss adjustment expense, in excess of the retention
- Second Multi Line Per Risk - Casualty or Liability
- Retention: \$300,000 each and every loss
- Coverage: \$700,000 of each and every loss, including loss adjustment expense, in excess of the retention
4. Type: Third Per Risk Excess of Loss
- Scope: All business written by the company classified as property business
- Retention: \$1,000,000 each and every loss
- Coverage: \$5,000,000 each and every loss, including loss adjustment expense, in excess of the retention
5. Type: First Catastrophe Excess of Loss
- Scope: All property business written by the Company
- Retention: \$550,000 each loss occurrence
- Coverage: \$11,450,000 each loss occurrence that occurs during each annual period. Reinsurer's maximum limit of liability will not exceed twice the limit of liability in any one annual period.
- Reinstatement: One free reinstatement

6. Type: Combination Aggregate Catastrophe and First Aggregate Excess of Loss Reinsurance
- Scope: Part 1 - All business written by the company classified as property. Part 1 shall inure to the benefit of Part 2
- Part 2 – All business written by the company
- First Catastrophe Excess of Loss policies are to be maintained and recoveries inure to the benefit of this part.
- Part 1 – Aggregate Catastrophe Excess of Loss
- Franchise Deductible: \$300,000 each loss occurrence
- Retention: \$1,100,000 of annual aggregate amount of ultimate net loss
- Coverage: \$2,400,000 of aggregate annual amount of ultimate net loss including loss adjustment expenses in excess of the company's retention
- Part 2 – Aggregate Excess of Loss
- Retention: Annual net losses, including loss adjustment expense, equal to not less than 63% of net premium written
- Coverage: 100% of the amount by which annual aggregate net losses, including loss adjustment expenses, exceed the company's retention 63% of net premium written, including loss adjustment expense, up to 37% of net premiums written
7. Type: Second Aggregate Excess of Loss Reinsurance
- Retention: Annual net losses, including loss adjustment expense, equal to not less than 100% of net premium written
- Coverage: 100% of annual aggregate net losses, including loss adjustment expenses, in excess of 100% of net premiums written

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, 2018, 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.

Mutual of Wausau Insurance Corporation
Assets
As of December 31, 2018

	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	\$15,634,445	\$	\$15,634,445
Stocks:			
Preferred stocks	60,000		60,000
Common stocks	6,003,392		6,003,392
Real estate:			
Occupied by the company	1,744,435		1,744,435
Cash, cash equivalents, and short-term investments	1,000,921		1,000,921
Contract loans	26,682		26,682
Investment income due and accrued	125,630		125,630
Premiums and considerations:			
Uncollected premiums and agents' balances in course of collection	200,938	1,269	199,669
Deferred premiums, agents' balances, and installments booked but deferred and not yet due	1,321,075		1,321,075
Reinsurance:			
Amounts recoverable from reinsurers	5,968		5,968
Other amounts receivable under reinsurance contracts	56,496		56,496
Current federal and foreign income tax recoverable and interest thereon	127,496		127,496
Net deferred tax asset	103,640		103,640
Electronic data processing equipment and software	33,950		33,950
Furniture and equipment, including health care delivery assets	11,777	11,777	
Receivable from parent, subsidiaries, and affiliates	<u>47,101</u>	<u> </u>	<u>47,101</u>
Total Assets	<u>\$26,503,946</u>	<u>\$13,046</u>	<u>\$26,490,900</u>

**Mutual of Wausau Insurance Corporation
Liabilities, Surplus, and Other Funds
As of December 31, 2018**

Losses		\$ 1,250,292
Loss adjustment expenses		52,491
Commissions payable, contingent commissions, and other similar charges		754,670
Other expenses (excluding taxes, licenses, and fees)		184,614
Taxes, licenses, and fees (excluding federal and foreign income taxes)		20,178
Unearned premiums		7,035,267
Advance premium		312,599
Write-ins for liabilities:		
Rent security deposits		<u>1,000</u>
 Total Liabilities		 9,611,111
 Unassigned funds (surplus)	<u>\$16,879,789</u>	
 Surplus as Regards Policyholders		<u>16,879,789</u>
 Total Liabilities and Surplus		<u>\$26,490,900</u>

Mutual of Wausau Insurance Corporation
Summary of Operations
For the Year 2018

Underwriting Income		
Premiums earned		\$10,917,361
Deductions:		
Losses incurred	\$3,834,333	
Loss adjustment expenses incurred	930,764	
Other underwriting expenses incurred	<u>4,976,909</u>	
Total underwriting deductions		<u>9,742,006</u>
Net underwriting gain (loss)		1,175,355
Investment Income		
Net investment income earned	388,061	
Net realized capital gains (losses)	<u>(122,499)</u>	
Net investment gain (loss)		265,562
Other Income		
Finance and service charges not included in premiums	43,921	
Write-ins for miscellaneous income:		
Miscellaneous	<u>30,532</u>	
Total other income		<u>74,453</u>
Net income (loss) before dividends to policyholders and before federal and foreign income taxes		1,515,370
Federal and foreign income taxes incurred		<u>323,890</u>
Net Income		<u>\$ 1,191,480</u>

Mutual of Wausau Insurance Corporation
Cash Flow
For the Year 2018

Premiums collected net of reinsurance		\$11,290,365
Net investment income		539,686
Miscellaneous income		<u>74,453</u>
Total		11,904,504
Benefit- and loss-related payments	\$4,849,712	
Commissions, expenses paid, and aggregate write-ins for deductions	4,785,633	
Federal and foreign income taxes paid (recovered)	<u>280,000</u>	
Total deductions		<u>9,915,345</u>
Net cash from operations		1,989,159
Proceeds from investments sold, matured, or repaid:		
Bonds	\$1,983,745	
Stocks	<u>679,339</u>	
Total investment proceeds		2,663,084
Cost of investments acquired (long-term only):		
Bonds	4,154,910	
Stocks	<u>978,073</u>	
Total investments acquired		<u>5,132,983</u>
Net cash from investments		(2,469,899)
Cash from financing and miscellaneous sources:		
Other cash provided (applied)		<u>16,865</u>
Reconciliation:		
Net Change in Cash, Cash Equivalents, and Short-Term Investments		(463,875)
Cash, cash equivalents, and short-term investments:		
Beginning of year		<u>1,462,177</u>
End of Year		<u>\$ 998,302</u>

**Mutual of Wausau Insurance Corporation
Compulsory and Security Surplus Calculation
December 31, 2018**

Assets		\$26,490,900
Less security surplus of insurance subsidiaries		
Less liabilities		<u>9,611,111</u>
Adjusted surplus		16,879,789
Annual premium:		
Lines other than accident and health	\$11,634,159	
Factor	<u>20%</u>	
Compulsory surplus (subject to a minimum of \$2 million)		<u>2,326,831</u>
Compulsory Surplus Excess (Deficit)		<u>\$14,552,958</u>
Adjusted surplus (from above)		\$16,879,789
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>3,257,563</u>
Security Surplus Excess (Deficit)		<u>\$13,622,226</u>

**Mutual of Wausau Insurance Corporation
Analysis of Surplus
For the Four-Year Period Ending December 31, 2018**

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

	2018	2017	2016	2015
Surplus, beginning of year	\$15,851,953	\$15,786,362	\$14,181,798	\$13,158,556
Net income	1,191,480	(344,556)	1,061,857	976,286
Change in net unrealized capital gains/losses	(181,036)	488,376	602,950	(86,020)
Change in net deferred income tax	21,947	(99,848)	(49,909)	(57,284)
Change in nonadmitted assets	<u>(4,555)</u>	<u>21,619</u>	<u>(10,334)</u>	<u>190,260</u>
Surplus, End of Year	<u>\$16,879,789</u>	<u>\$15,851,953</u>	<u>\$15,786,362</u>	<u>\$14,181,798</u>

**Mutual of Wausau Insurance Corporation
Insurance Regulatory Information System
For the Four-Year Period Ending December 31, 2018**

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	2018	2017	2016	2015
#1 Gross Premium to Surplus	100%	99%	94%	102%
#2 Net Premium to Surplus	69	60	58	64
#3 Change in Net Premiums Written	22	3	1	-2
#4 Surplus Aid to Surplus	0	0	0	0
#5 Two-Year Overall Operating Ratio	93	94	83	90
#6 Investment Yield	1.6*	1.4*	0.9*	0.9*
#7 Gross Change in Surplus	6	0	11	8
#8 Change in Adjusted Surplus	6	0	11	8
#9 Liabilities to Liquid Assets	36	37	37	38
#10 Agents' Balances to Surplus	1	1	2	2
#11 One-Year Reserve Development to Surplus	-1	-1	-1	-2
#12 Two-Year Reserve Development to Surplus	-1	-1	-3	-2
#13 Estimated Current Reserve Deficiency to Surplus	-0	-2	-2	-1

Ratio #6 measures the company's investment yield. The exceptional results for all years under examination are due to the low returns on the company's conservative investment

portfolio; this is not uncommon given the low interest rate environment that has prevailed in recent years.

Growth of Mutual of Wausau Insurance Corporation

Year	Admitted Assets	Liabilities	Surplus as Regards Policyholders	Net Income
2018	\$26,490,900	\$9,611,111	\$16,879,789	\$1,191,480
2017	24,983,601	9,131,648	15,851,953	(344,556)
2016	24,491,056	8,704,694	15,786,362	1,061,857
2015	22,266,231	8,084,433	14,181,798	976,286
2014	21,001,876	7,843,320	13,158,556	707,551

Year	Gross Premium Written	Net Premium Written	Premium Earned	Loss and LAE Ratio	Expense Ratio	Combined Ratio
2018	\$16,932,580	\$11,634,159	\$10,917,361	43.6%	42.1%	85.7%
2017	15,711,218	9,505,751	9,077,894	62.7	45.7	108.4
2016	14,901,058	9,194,038	9,091,582	39.6	46.7	86.3
2015	14,450,730	9,076,174	9,063,375	39.3	45.7	85.0
2014	11,669,563	9,255,423	9,193,446	57.1	41.6	98.7

Over the examination period the company reported a 26% increase in assets, a 23% increase in liabilities, and a 28% increase in surplus. The company did have an unprofitable year in 2017 due to high storm losses. Other than the anomaly in 2017, the company has had stable operating results. Net premiums have steadily increased while the company's combined ratio has remained relatively steady.

Reconciliation of Surplus per Examination

No adjustments were made to surplus as a result of this examination. The amount of surplus reported by the company as of December 31, 2018, is accepted.

VII. SUMMARY OF EXAMINATION RESULTS

Compliance with Prior Examination Report Recommendations

There were four 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. Audit Engagement—It is recommended that the company enter into future audit engagements with independent certified public accountants that are in compliance with all requirements under s. Ins 50.08 (1), Wis. Adm. Code.

Action—Compliance.

2. Cash Receipts—It is recommended that more effective internal control measures be designed and implemented for the handling of cash on hand.

Action—Compliance.

3. Investment Limitations—It is recommended that the company exclude the value of the assets that exceed the investment limitation prescribed by s. Ins 6.20 (8) (k), Wis. Adm. Code, and s. 620.22 (9), Wis. Stat., from the calculation of its compulsory and security surplus requirements in accordance with s. 620.21, Wis. Stat.

Action—Compliance.

4. Unclaimed Property—It is recommended that the company report unclaimed property as a write-in on page 3, line 25, of the annual statement per the NAIC *Annual Statement Instructions – Property and Casualty*.

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.

Conflict of Interest

Review of the company's conflict of interest disclosure statements (referred to as disclosure of information sheets by the company) revealed that the company did not receive and review all conflict of interest disclosure statements from all directors, officers, and key employees, during the period under examination. The company was not able to provide a signed conflict of interest statement for an officer for 2018. The company's employee handbook requires that each employee complete and sign a disclosure information sheet to ensure that there are no conflicts between the company and employee's other activities. It is recommended that each of the company's officers, directors, and key employees annually make conflict of interest disclosures to the company and that the company retain the disclosures in the company's records from examination to examination, in compliance with the directive of the Commissioner of Insurance and the company's employee handbook.

Schedule P Reporting

As discussed in Section IV of this report, MWIC participates in a pooling arrangement with HMIC. The NAIC *Annual Statement Instructions – Property/Casualty* includes provisions that apply to a reporting entity that participates in an intercompany pooling arrangement. Specifically, it requires that the reporting entity participating in a pooling arrangement show only its share of the business, not the total for all participants, in Schedule P. The company has not been following these specific provisions, instead filling out Schedule P as a non-pooling company. Instead of reporting its share of the combined direct business in the direct and assumed column and its share of cessions to third-party reinsurers in the ceded column of Schedule P - Part 1, it included the intercompany cessions related to the pool in both direct and assumed and ceded columns. The erroneous reporting affected Schedule P- Parts 1, 5, and 6, but it did not affect the net results reported on Schedule P- Part 1, nor did it affect any other part of the Annual

Statement. It is recommended that, in future annual statements, the company complete Schedule P in accordance with the NAIC *Annual Statement Instructions – Property/Casualty* as regards an entity that participates in an intercompany pooling arrangement.

VIII. CONCLUSION

Mutual of Wausau Insurance Corporation was originally organized as a town mutual insurance company on January 1, 1998, with the consolidation of two town mutuals: Wausau Mutual Insurance Company, organized in 1875, and Stettin Mutual Insurance Company, organized in 1876 under provisions of the then existing Wisconsin Statutes. The company assumed the name Wausau Stettin Mutual Insurance Company. Effective January 1, 2011, the company converted from a town mutual insurance company to a non-assessable mutual insurance company under Ch. 611, Wis. Stat., and changed its name to that presently used. On October 1, 2011, Manitowoc Mutual Insurance Company was merged into Mutual of Wausau Insurance Company, with the company being the surviving entity. On January 1, 2015, the company entered into an affiliation agreement with Homestead Mutual Insurance Company.

The company is primarily a personal lines writer, with the highest volume lines of business being homeowner's multi-peril and farmowner's multi-peril, with 61% and 27% of total direct premiums written, respectively. The company utilizes a network of approximately 75 independent agencies to market and acquire business. The company is licensed to write business in all counties of the state of Wisconsin.

During the four-year examination period the company experienced steady operating results, with 2017 being the only exception. The unprofitable year was driven by unusually high storm losses. While the company is licensed only in Wisconsin and largely operates in areas of the state with limited growth opportunities at the present time, the company offsets these constraints with conservative investing, a strong liquidity position, and a strong reinsurance program.

IX. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 23 - Conflict of Interest—It is recommended that each of the company's officers, directors, and key employees annually make conflict of interest disclosures to the company and that the company retain the disclosures in the company's records from examination to examination, in compliance with the directive of the Commissioner of Insurance and the company's employee handbook.
2. Page 23 - Schedule P Reporting—It is recommended that, in future annual statements, the company complete Schedule P in accordance with the NAIC *Annual Statement Instructions – Property/Casualty* as regards an entity that participates in an intercompany pooling arrangement.

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
John Pollock	Insurance Financial Examiner
Jeffrey Boyd	Insurance Financial Examiner
James Vanden Branden	ACL Specialist
Eleanor Lu, CISA	IT Specialist
Jerry DeArmond, CFE	Reserve Specialist

Respectfully submitted,



Dana Tice
Examiner-in-Charge