Report

of the

Examination of

National Insurance Company of Wisconsin, Inc.

Brookfield, Wisconsin

As of December 31, 2017

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State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

Scott Walker, *Governor*
Theodore K. Nickel, *Commissioner*

Wisconsin.gov

125 South Webster Street • P.O. Box 7873
Madison, Wisconsin 53707-7873
Phone: (608) 266-3585 • Fax: (608) 266-9935
E-Mail: ociinformation@wisconsin.gov
Web Address: oci.wi.gov

September 18, 2018

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

Commissioner:

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

NATIONAL INSURANCE COMPANY OF WISCONSIN, INC.
Brookfield Wisconsin

and this report is respectfully submitted.

I. INTRODUCTION

The previous examination of National Insurance Company of Wisconsin, Inc. (NICW or the company) was conducted in 2014 as of December 31, 2013. The current examination covered the intervening period ending December 31, 2017, and included a review of such 2018 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.

Independent Actuary's Review

An independent actuarial firm was engaged under a contract with the Office of the Commissioner of Insurance. The actuary reviewed the adequacy of the company's 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

The company was originally organized in 1895 as a town mutual insurance company under the name Campbellsport Mutual Insurance Company. In 1976, the company became a domestic mutual insurance company and changed its name to Camco Insurance a Mutual Company. In 1980, the company converted to a stock insurance company and changed its name to Wisconsin Employers Indemnity Company. From 1980 to 1989, the company's ultimate parent was American Express Company. The company was sold as an inactive shell corporation to National Services, Inc. (NSI) in 1989. The principals of National Insurance Services of Wisconsin, Inc. (NIS) reactivated the company, adopted the current name of National Insurance Company of Wisconsin, Inc., and commenced business on February 9, 1989. (See the section of this report captioned "Affiliated Companies" for a list of the principals that own NICW, NIS, and other affiliates.)

In 2017, the company wrote direct premium in the following states:

Indiana	$118,947	32.2%
Minnesota	107,545	29.1
Wisconsin	83,108	22.5
Michigan	36,765	10.0
Nebraska	22,963	6.2
Total	$369,328	100.0%

The company is currently licensed in 20 states including the following:

Alabama	Kentucky	Nebraska
Colorado	Maryland	North Dakota
Delaware	Michigan	South Dakota
Georgia	Minnesota	Washington
Idaho	Mississippi	Wisconsin
Illinois	Missouri	Wyoming
Indiana	Montana	

NICW primarily wrote group long-term disability (LTD) insurance for school districts and municipalities as well as a small volume of group short-term disability insurance. It also marketed a small volume of long-term care (LTC) business with its affiliate NIS and LifePlans, Inc. (LifePlans), a third party administrator, prior to March 2013, when the coverage was discontinued due to changes in the reinsurance market. NICW's business was primarily marketed through its affiliate, NIS.

During the current period under examination, the principal owners decided to sell the company. Management has implemented various plans to prepare for sale of the company, which:

- Discontinued writing long-term care insurance
- Stopped writing new long-term disability products
- Arranged for its affiliate agency, NIS, which has been the source of direct premium written, to move the long-term products on the books to other carriers
- Cancelled its assumed reinsurance agreements
- Outsourced its long-term disability reserve and claims administration to Madison National Life Insurance Company

Management's intention is to sell the company with remaining long-term care insurance in its closed book of business, which is 100% reinsured.

The following table is a summary of the net insurance premiums written by the company in 2017. 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
Other accident and health	$369,328	$0	$350,861	$18,467
Total All Lines	$369,328	$0	$350,861	$18,467

The above premium written represents long-term care renewal business with net premium reflecting the 5% issuance fee NICW earns for writing the LTC policy on their paper, with 2% allocated to premium tax.

III. MANAGEMENT AND CONTROL

Board of Directors

The board of directors was reduced from nine to five members in 2016 due to the reduction in business activity as the company began preparations for sale. All directors are 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 may also be members of other boards of directors in the holding company group. The board members currently receive $2,000 annual compensation for serving on the board.

The board of directors consisted of the following persons as of December 31, 2017:

Name and Residence	Principal Occupation	Term Expires
Scott P. Briscoe Muskego, Wisconsin	Executive Vice President and Secretary of NICW Vice President, Secretary and Director of NIS	2019
Terry D. Briscoe Franklin, Wisconsin	Chairman and CEO of NICW Chairman of NIS	2019
Thomas D. Ehrsam Hartland, Wisconsin	Vice Chairman and COO of NICW COO and Director of NIS	2019
Bruce A. Miller Delafield, Wisconsin	President and Director of NICW President, CEO and Director of NIS	2019
David M. Norton Greendale, Wisconsin	Vice President and Treasurer of NICW Vice President, Treasurer, Director of NIS	2019

NIS was subsequently sold to Assured Partners, Inc. (Assured Partners) as of May 1, 2018. The NIS titles above reflect the director year-end positions till the NIS sale on April 30, 2018.

Officers of the Company

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

Name	Office	2017 Compensation
Terry Briscoe	Chairman and Chief Executive Officer	$ 2,000
Thomas Ehrsam	Vice Chairman and Chief Operating Officer	2,000
Bruce Miller	President	2,000
Scott Briscoe	Executive Vice President and Secretary	41,262
David Norton	Vice President and Treasurer	2,000

The only NICW employee as of December 31, 2017, was Scott Briscoe. All other officers did not draw a salary from NICW, receiving only director fees of $2000, and were compensated by the NIS affiliate.

Committees of the Board

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

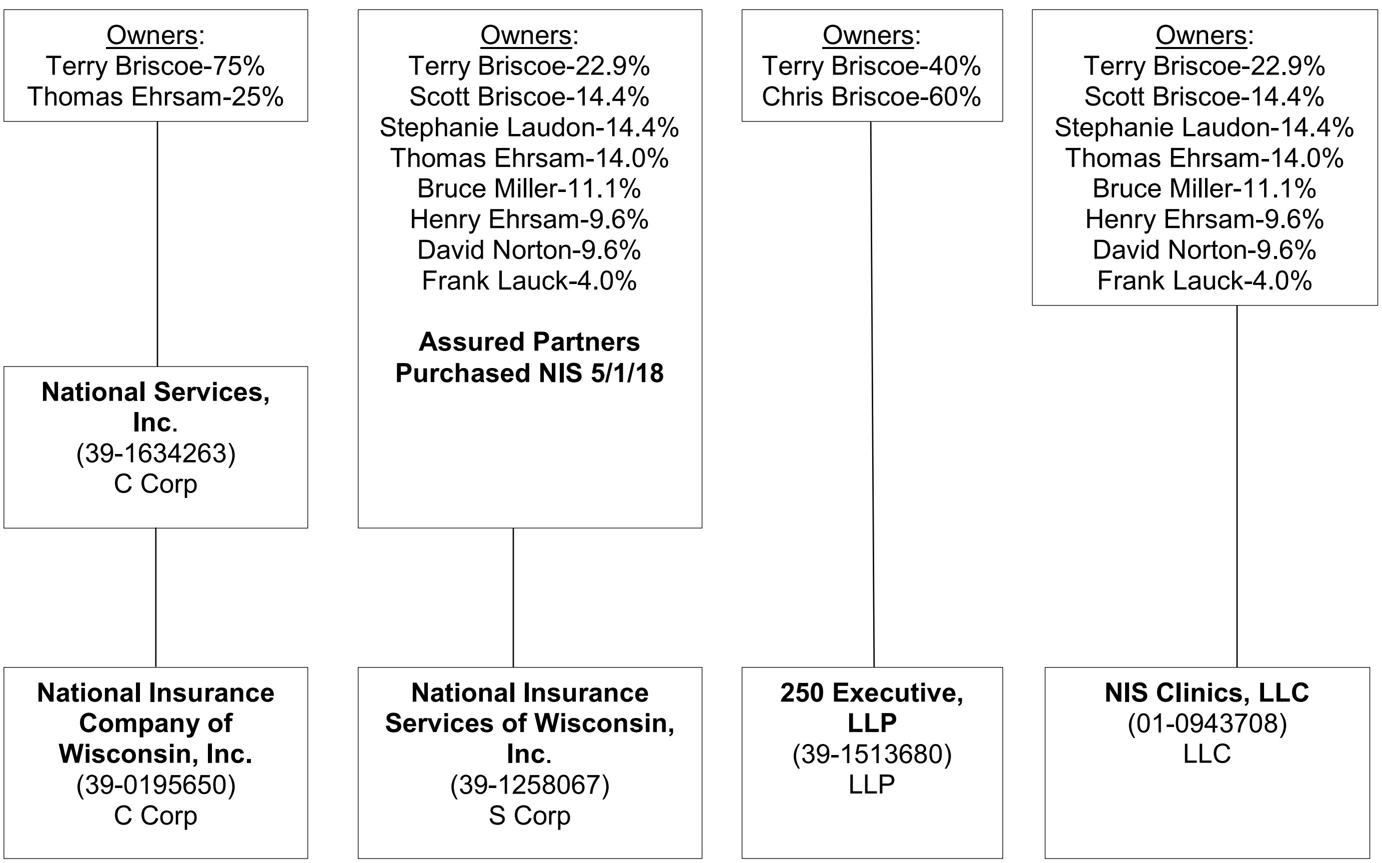
Investment Committee
Terry Briscoe, Chair
Mike Barsch
Scott Briscoe
Thomas Ehrsam
Frank Lauck
Bruce Miller
David Norton

Audit Committee
Scott Briscoe, Chair
Bruce Miller
David Norton

IV. AFFILIATED COMPANIES

NICW is a member of a holding company system. The organizational chart below depicts the relationships among the affiliates in the group as of December 31, 2017. The organizational chart also indicates the subsequent sale of NIS to Assured Partners as of May 1, 2018. NIS will continue its focus on the school and other public sector market and will provide additional distribution for Assured Partners in the public sector. A brief description of the significant affiliates follows the organizational chart.

National Insurance Company of Wisconsin, Inc.
Organizational Chart



National Services, Inc. (NSI)

National Services, Inc. is the parent of NICW. It was created for the sole purpose of holding company ownership of NICW and conducts no other specific business. As of December 31, 2017, the audited financial statements of NSI reported assets of $13,599,300, liabilities of $2,198,896, and shareholders' equity of $11,400,404. Operations for 2017 produced a net loss of $94,347. All of NSI's income is produced by its one direct subsidiary, NICW.

National Insurance Services of Wisconsin, Inc. (NIS)

National Insurance Services of Wisconsin, Inc. is licensed as a third–party administrator in jurisdictions that require such licensure. NIS produced virtually all of the business written or assumed by NICW. As of December 31, 2017, the audited financial statements of NIS reported assets of $11,049,740, liabilities of $3,125,830, and stockholders' equity of $7,923,910. Operations for 2017 produced net income of $3,310,124. NIS was subsequently sold to Assured Partners as of May 1, 2018, and is no longer part of the National Services affiliated group.

250 Executive, LLP

250 Executive, LLP owns an office building which leases space to various companies, including NICW and NIS. As of December 31, 2017, the unaudited financial statements of 250 Executive, LLP reported assets of $2,829,438, liabilities of $2,019,612, and a partners' equity of $809,826. Operations for 2017 produced net income of $135,771.

NIS Clinics, LLC

NIS Clinics, LLC is a provider of on-site medical clinics for the private and public sector. NIS Clinics, LLC furnishes sales and marketing for CareATC, which offers self-insured companies employing 500 or more worksite medical clinics as a means to reduce rising health care costs. As of December 31, 2017, the unaudited financial statements of NIS Clinics, LLC reported assets of $109,479, liabilities of $308,232, and capital of ($198,753). Operations for 2017 produced net income of $57,137.

Agreements with Affiliates

NICW is a party to the following affiliated agreements:

Commission and Administrative Services Agreement

NICW has appointed NIS as administrator to perform various agency and administrative business services for its group policies under a Commission and Administrative Services Agreement, effective February 9, 1989. NIS is responsible for providing various policy services, including enrollment, solicitation, advertising support, delivery of coverage evidence, beneficiary processing, and lapsed coverage notification. NIS is also responsible for various premium processing services, including premium billing, collection and remittance reporting, and claim services. NIS is also responsible for providing assistance in the preparation of regulatory reporting, including the filing of statutory statements. Under the agreement, the company paid a commission fee for insurance marketing services provided by NIS, as well as an administration fee for NIS' performance of various NICW operating services. The above fees are calculated as a percentage of premiums paid to the company in accordance with various amendments to the agreement's Commission and Administration Fee Allowance Schedule. Commission fees are not to exceed 20%, with up to another 5% if NIS pays an outside agent 10% commission or more. The agreement may be terminated by either party with 60 days advance written notice. Statutory statement filing represents the only primary responsibility currently applicable under the company's inactive status.

Profit Sharing Agreement

A Profit Sharing Agreement between NICW and NIS, effective February 9, 1989, recognizes the influence NIS had on the profitability of the business placed with NICW. Accordingly, NICW agreed to pay NIS a profit-sharing compensation in an amount equal to 10% of profits generated from long-term disability policies underwritten by NICW or assumed by NICW under a reinsurance agreement, which are sold, issued, and administered through NIS. The agreement may be terminated by NICW with 60 days advance written notice. Company inquiry indicated current applicability is primarily limited to the unlikely potential of an underwriting gain as a result of subsequent reserve releases.

Reliastar Profit Sharing Agreement

A Profit Sharing Agreement between NICW and NIS, effective July 1, 1999, recognizes the influence NIS had on the profitability of the business placed with NICW, and reinsured 50% by Reliastar Life Insurance Company. American United Life (AUL) was NICW's direct reinsurer prior to Reliastar Life Insurance Company, and had a profit sharing arrangement with NIS. When Reliastar Life Insurance Company replaced AUL as NICW's direct reinsurer in 1999, they requested that the agreement be with NICW rather than NIS. Any profit share NICW earns under the agreement is passed on to NIS as a contingent commission to keep NIS in the same financial position as they were when AUL was the reinsurer. An amendment terminated ReliaStar Life Insurance Company liability for long-term disability claims arising on or after January 1, 2013. Company inquiry indicated that the profit sharing agreement is still applicable for the final runout calculations for the 2012 incurred year, which will be in 2020.

Marketing Services Agreement

NICW has appointed NIS as an agent with respect to marketing LTC coverage under a Marketing Services Agreement, effective January 1, 2002. Under the agreement, NIS is responsible for performing enrollment solicitation, case material delivery, advertising and sales support, evidence of coverage delivery, and marketing plan development. NICW pays NIS a commission of 14%. The agreement automatically renews annually, and may be terminated by either party with 60 days advance written notice. NICW has discontinued writing any new LTC business since 2013.

Tax Allocation Agreement

The company is a party to a Tax Allocation Agreement with its parent NSI, effective June 29,1999. NSI is responsible for the filing of a consolidated income tax return for its affiliated group. Each member of the affiliated group is responsible for the computation of its separate tax liability as if it had filed a separate tax return. The agreement applies to the tax year ending December 31, 1999, and all subsequent taxable periods unless the parent and subsidiary agree to terminate.

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.

Nonaffiliated Ceding Contracts in Runoff

1.	Type:	Quota Share
	Reinsurer:	RGA Reinsurance Company (Reliastar Life Insurance Company)
	Scope:	All long-term disability policies written by the company
	Retention:	50% of the company's liability on a quota share basis, subject to a maximum of $12,000 gross monthly benefit
	Coverage:	50% of the company's liability on a quota share basis, subject to a maximum of $12,000 gross monthly benefit
	Premium:	50% of the gross direct long-term disability premium earned
	Commissions:	50% of net underwriting profits to the company 10% expense allowance to the company
	Effective date:	July 1, 1999
	Termination:	Agreement shall be in continuous force and effect until terminated. Either party can terminate this agreement on any anniversary date by giving 90 days written notice. Amendment #6 terminated coverage as of January 1, 2013, for claims arising on or after termination.
2.	Type:	Quota Share
	Reinsurer:	Reliance Standard Life Insurance Company Doing Business as Custom Disability Solutions (CDS)
	Scope:	All long-term disability policies written by the company
	Retention:	50% of the company's liability on a quota share basis, subject to a maximum of $15,000 gross monthly benefit to March 31, 2015 0% effective April 1, 2015 per Amendment #1
	Coverage:	50% of the company's liability on a quota share basis, subject to a maximum of $15,000 gross monthly benefit to March 31, 2015 100% effective April 1, 2015, per Amendment #1
	Premium:	50% of the gross direct long-term disability premium earned 100% effective April 1, 2015, per Amendment #1
	Commissions:	30% + 5% when NIS pays agent 10% or more in commissions
	Effective date:	January 1, 2013

Termination:	Agreement shall be in continuous force and effect until terminated. Either party can terminate this agreement on any anniversary date by giving 180 days written notice. Amendment #1 terminated coverage for new business effective December 31, 2015. Claims incurred prior to termination are covered at the reinsurer percentage in effect on the date claim incurred.

3. Type: Quota Share—Coinsurance Basis

Reinsurer:	Munich American Reassurance Company
Scope:	Long-term care insurance policies written by the company through the third party administrator, LifePlans, Inc., up to February 1, 2011
Retention:	None
Coverage:	100% of all direct long-term care business risk
Premium:	100% of the direct long-term care premiums
Commissions:	First Year = 60% of gross premium written and 5% of paid claims Renewal Years = 24% of gross premium written and 5% of paid claims
Effective date:	May 1, 2002
Termination:	Agreement duration is unlimited. Either party can terminate this agreement at any time giving 90 days written notice. Amendment #1 terminated new business coverage effective January 31, 2011.

Nonaffiliated Ceding Contracts

1. Type: Quota Share—Coinsurance Basis

Reinsured:	Ability Insurance Company (Ability)
Scope:	Long-term care insurance policies written by the company through the third party administrator, LifePlans, Inc.
Retention:	None
Coverage:	100% of all direct long-term care business risk
Premium:	100% of all direct long-term care premiums
Commissions:	First Year = 60% of gross premium written and 5% of paid claims Renewal Years = 24% of gross premium written and 5% of paid claims
Effective date:	February 1, 2011
Termination:	Agreement duration is unlimited. Either party may terminate at any time by giving 180 days written notice.

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, 2017, 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.

National Insurance Company of Wisconsin, Inc.
Assets
As of December 31, 2017

	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	$11,426,816	$	$11,426,816
Cash, cash equivalents, and short-term investments	1,630,624		1,630,624
Investment income due and accrued	54,846		54,846
Reinsurance:			
Other amounts receivable under reinsurance contracts	83,906		83,906
Current federal and foreign income tax recoverable and interest thereon	320,403		320,403
Net deferred tax asset	22,750		22,750
Write-ins for other than invested assets:			
Prepaid Expenses	143,032	143,032	
Reinsurance-Funding of Trust Account for LTC Reserves (Ability)	556,167	556,167	
State Taxes	43,066		43,066
Miscellaneous	8,805		8,805
Total Assets	$14,290,415	$699,199	$13,591,215

National Insurance Company of Wisconsin, Inc.
Liabilities, Surplus, and Other Funds
As of December 31, 2017

Losses		$ 1,262,741
Loss adjustment expenses		200,000
Other expenses (excluding taxes, licenses, and fees)		48,360
Payable to parent, subsidiaries, and affiliates		123,544
Write-ins for liabilities:		
Reinsurance – Funding of Trust Account for LTC Reserves (Ability Re)		556,167
Total Liabilities		2,190,811
Common capital stock	$2,000,000	
Gross paid in and contributed surplus	1,000,000	
Unassigned funds (surplus)	8,400,404	
Surplus as Regards Policyholders		11,400,404
Total Liabilities and Surplus		$13,591,215

National Insurance Company of Wisconsin, Inc.
Summary of Operations
For the Year 2017

Underwriting Income		
Premiums earned		$ 18,467
Deductions:		
Losses incurred	$148,165	
Loss adjustment expenses incurred	112,519	
Other underwriting expenses incurred	242,340	
Total underwriting deductions		503,024
Net underwriting gain (loss)		(484,557)
Investment Income		
Net investment income earned	306,081	
Net realized capital gains (losses)	(31,041)	
Net investment gain (loss)		275,040
Net income (loss) before dividends to policyholders and before federal and foreign income taxes		(209,517)
Federal and foreign income taxes incurred		115,170
Net Loss		($ 94,347)

National Insurance Company of Wisconsin, Inc.
Cash Flow
For the Year 2017

Premiums collected net of reinsurance			$ 18,467
Net investment income			263,092
Total			281,559
Benefit- and loss-related payments		$ 162,138	
Commissions, expenses paid, and aggregate write-ins for deductions		1,015,695	
Total deductions			1,177,833
Net cash from operations			(896,274)
Proceeds from investments sold, matured, or repaid:			
Bonds	$5,354,248		
Miscellaneous proceeds	940,851		
Total investment proceeds		6,295,099	
Cost of investments acquired (long-term only):			
Bonds		5,926,274	
Net cash from investments			368,825
Cash from financing and miscellaneous sources:			
Other cash provided			612,140
Net cash from financing and miscellaneous sources			612,140
Reconciliation:			
Net Change in Cash, Cash Equivalents, and Short-Term Investments			84,690
Cash, cash equivalents, and short-term investments:			
Beginning of year			1,545,933
End of Year			$1,630,623

National Insurance Company of Wisconsin, Inc.
Compulsory and Security Surplus Calculation
December 31, 2017

Assets			$ 13,591,215
Less liabilities			2,190,811
Adjusted surplus			11,400,404
Annual premium:			
Individual accident and health	$18,467		
Factor	15%		
Total		$2,770	
Compulsory surplus (subject to a minimum of $2 million)			2,000,000
Compulsory Surplus Excess			$ 9,400,404

Adjusted surplus (from above)	$11,400,404
Security surplus (140% of compulsory surplus, factor reduced 1% for each $33 million in premium written in excess of $10 million, with a minimum factor of 110%)	2,800,000
Security Surplus Excess	$ 8,600,404

National Insurance Company of Wisconsin, Inc.
Analysis of Surplus
For the Four-Year Period Ending December 31, 2017

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

	2017	2016	2015	2014
Surplus, beginning of year	$12,143,351	$17,485,092	$19,677,861	$19,673,331
Net income	(94,347)	1,151,409	(177,721)	1,880,051
Change in net unrealized capital gains/losses	2,750	(503,950)	(109,603)	(6,732)
Change in net deferred income tax	26,191	(11,508)	25,215	32,215
Change in nonadmitted assets	(677,538)	22,308	(30,660)	(1,004)
Dividends to stockholders		(6,000,000)	(1,900,000)	(1,900,000)
Surplus, End of Year	$11,400,408	$12,143,351	$17,485,092	$19,677,861

National Insurance Company of Wisconsin, Inc.
Insurance Regulatory Information System
For the Four-Year Period Ending December 31, 2017

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

	Ratio	2017	2016	2015	2014
#1	Gross Premium to Surplus	3%	3%	40%	63%
#2	Net Premium to Surplus	0	0	29	53
#3	Change in Net Premiums Written	9	(100)*	(51)*	(4)
#4	Surplus Aid to Surplus	0	0	0	0
#5	Two-Year Overall Operating Ratio	0	83	83	77
#6	Investment Yield	2.3*	2.6*	2.4*	3.6
#7	Gross Change in Surplus	(6)	(31)*	(11)*	0
#8	Change in Adjusted Surplus	(6)	(31)*	(11)*	0
#9	Liabilities to Liquid Assets	17	12	18	111*
#10	Agents' Balances to Surplus	0	0	0	0
#11	One-Year Reserve Development to Surplus	2	(10)	(25)	(17)
#12	Two-Year Reserve Development to Surplus	(9)	(35)	(34)	(29)
#13	Estimated Current Reserve Deficiency to Surplus	0	(12)	28*	(18)

Ratio #3 measures material changes in net premiums written between years and was considered exceptional from 2015 and 2016. The exceptional results were due to decisions made by the company to stop writing long-term care insurance in 2013 and, later, halting writing of long term disability insurance in 2015. The company also moved all active long-term disability policies to another carrier by the end of 2015.

Ratio #6 measures the amount of the company's net investment income as a percentage of the average amount of cash and invested assets, and was considered exceptional from 2015 to 2017, inclusive. The exceptional ratios can be attributed to a conservative investment approach and the prolonged low interest rate environment in the United States during the period under examination.

Ratio #7 measures the improvement or deterioration in the insurer's financial condition during the year. The exceptional ratios in 2015 and 2016 are the result of $1.9 million and $6.0 million dividends to stockholders paid in 2015 and 2016, respectively.

Ratio #8 measures the improvement or deterioration in the insurer's financial condition during the period based on operational results. The exceptional ratios in 2015 and 2016 reflect the $1.9 million and $6.0 million stockholder dividends paid in 2015 and 2016, respectively.

Ratio #9 measures the insurer's ability to meet short-term obligations. The exceptional ratio in 2014 is attributed to the results of the company's loss reserves established for their long-term disability policies. In 2015, the company completed a reserve buyout relating to the closed blocks of long-term disability policies. The company no longer holds assumed reserves or reports funds held by reinsurers' balance relating to the business sold as of December 31, 2015. Hence, ratio #9 has not been considered exceptional after 2014.

Ratio #13 provides an estimate of the adequacy of current reserves and reflects the estimated deficiency difference between the estimated reserves required by the insurer and the actual reserves maintained. As of December 31, 2015, the ratio was considered exceptional due to the large reduction in reserves and earned premium relating to company's exit from the long-term disability market. The assumed business was terminated in 2015 and included a reserve buyout by the ceding carrier. Direct premium declined further as active long-term disability policies were rolled to Kansas City Life Insurance during the second half of 2015.

Growth of National Insurance Company of Wisconsin, Inc.

Year	Admitted Assets	Liabilities	Surplus as Regards Policyholders	Net Income
2017	$13,591,215	$ 2,190,811	$11,400,404	$ (94,347)
2016	13,812,393	1,669,043	12,143,350	1,151,409
2015	20,893,022	3,407,932	17,485,091	(177,721)
2014	43,508,755	23,830,901	19,677,858	1,880,051
2013	45,392,987	25,719,660	19,673,328	1,463,187

Year	Gross Premium Written	Net Premium Written	Premium Earned	Loss and LAE Ratio	Expense Ratio	Combined Ratio
2017	$ 369,328	$ 18,467	$ 18,467	1,411.6%	1,312.3%	2,723.9%
2016	339,397	16,956	16,956	(8,143.4)	4,615.0	(3,528.4)
2015	7,066,655	5,149,511	5,149,511	77.3	35.9	113.2
2014	12,427,712	10,448,556	10,448,556	51.9	28.9	80.8
2013	13,094,664	10,866,739	10,866,739	58.7	28.1	86.8

The admitted assets decrease in 2015 is attributed to the elimination of funds held by or deposited with reinsurance companies associated with the company's completion of reserve buyouts related to closed, assumed blocks of business with American United Life Insurance Company and Lafayette Life Insurance Company, and the cancellation of its assumed reinsurance agreement with Madison National Life Insurance, each in conjunction with the company's preparation for sale. The 2016 decrease is attributed to a reduction in invested assets associated with maturities, and sales to process a partial liquidating stockholder dividend of $6.0 million.

The decrease in liabilities in 2015 is attributed to a reduction in loss reserves associated with the above assumed reserve buyouts. The increase in liabilities in 2017 is attributed to an amended statement filing reflecting an adjustment to the trust fund established with Ability Insurance Company of $556,167 to fully secure the recoverables resulting from an actuarially-determined reserve deficiency of $1,156,630. This is further discussed under the section of the report captioned "Reconciliation of Surplus per Examination."

The surplus decreases in 2015 and 2016 reflect the partial liquidating stockholder dividends of $1.9 million and $6.0 million, respectively. The surplus decrease in 2017 is attributed to the $556,167 offsetting reduction in surplus relating to the reinsurance recoverable from Ability Insurance Company in excess of the collateral held in the trust account, as discussed under liabilities.

The decreasing premium trends beginning in 2015 are attributed to the movement of group long-term disability policies to another carrier in conjunction with preparations to exit the business and sell the company.

The net income decreasing trend beginning in 2015 is attributed to the impacts of the company's exit from the group long-term disability business, costs to complete reserve buyouts, and the one-time cost of $995,000 to outsource long-term disability claims administration to Madison National Life Insurance.

Loss ratio trend improvements in 2016 reflect the closeout of various open claims due to claimants no longer eligible for benefits, in conjunction with Madison National Life Insurance assumption of long-term disability claims administration. Loss ratio trend increases in 2017 reflect the setup of reserves for a few of the above closed-out claims by Madison National Life Insurance, which were subsequently appealed and progressed to lawsuits in the process of ongoing settlement with outside counsel. The expense ratio trends in 2016 are attributed to the costs associated with outsourcing contracts with Madison National Life Insurance to administer direct, long-term disability reserves for the duration of all remaining claims. Overall expense ratios in 2016–2017 are not meaningful because the company is in runoff and has limited net premium written.

Reconciliation of Surplus per Examination

The company filed an amended 2017 annual statement associated with a client-engaged actuarial opinion which concluded that LTC reserves were understated by $1,156,630 on a gross basis. The adjustment for the above reserve understatement resulted in an increase in both gross losses incurred and ceded losses incurred, with no net income or loss impact because of 100% ceding to Munich American Reassurance Company and Ability Insurance Company.

The above deficiency in LTC reserves resulted in an increase in the provision for reinsurance and a decrease in surplus of $556,167 to adjust the trust fund established with Ability Insurance Company to fully secure the recoverables, given its non-rated reinsurer status. NICW has recorded this adjustment under aggregate write-in for liabilities associated with the funding of the Ability trust account.

No other adjustments were made to surplus as a result of the examination. The amended amount of surplus reported by the company as of December 31, 2017, is accepted.

VII. SUMMARY OF EXAMINATION RESULTS

Compliance with Prior Examination Report Recommendations

There were six 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. Disaster Recovery Planning and Testing—It is again recommended that the company develop a comprehensive disaster recovery plan that is tested at least annually, if only as a walkthrough or tabletop exercise, and that the plan be updated each time in response to the test results.

   Action—Compliance

2. Schedule Y, Part 2, Reporting—It is recommended that shareholder dividends be reported on Schedule Y, Part 2, Summary of Insurer's Transactions with Affiliates, in accordance with NAIC Annual Statement Instructions – Property / Casualty.

   Action—Partial compliance: see comments in the "Summary of Current Examination Results"

3. Affiliated Agreement Settlement Terms—It is recommended that the company amend its affiliated agreements to include a specific due date for timely settlement of amounts owed in accordance with SSAP No. 25.

   Action—Compliance

4. Profit Sharing Agreement—It is recommended that the company report to the Commissioner of Insurance all holding company material affiliated transactions, including all management agreements, service contracts, and cost sharing arrangements, in compliance with the requirements of s. Ins 40.03 (3), Wis. Adm. Code.

   Action—Compliance

5. Ceded Reinsurance Balances—It is recommended that the company report reinsurance balances in their separate classifications on the annual statement according to the NAIC Annual Statement Instructions – Property/Casualty.

   Action—Noncompliance: see comments in the "Summary of Current Examination Results"

6. Business Continuity Plan—It is recommended that the company develop a business continuity plan to ensure smooth operations should a sudden loss of key personnel occur.

   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.

Third-Party Service Provider Management

The company has currently prepared for sale by terminating all new business writing, cancelling assumed reinsurance agreements, and outsourcing LTD and LTC block of business reserve and claim runoff to third party administrators. The company's affiliate NIS, who manages its information technology and financial services, has subsequently been sold to Assured Partners, effective May 1, 2018. Hence, going forward, NIS has become an external, third-party service provider. NIS itself continues to work to remediate findings resulting from external security consultant assessments. It is recommended that the company exercise due diligence to ensure that various third-party servicers implement appropriate administrative, technical, and physical measures to control and secure the company data processed.

Long-Term Care Reserves

LTC opining actuarial opinion results concluded that reserves were understated by approximately $1.2 million as of December 31, 2017. The adjustment for the above reserve understatement resulted in an increase in both gross losses incurred and ceded losses incurred, with no net income or loss impact because of 100% ceding to Munich American Reassurance Company and Ability Insurance Company. The current examination's independent consulting actuary supported the above opining actuary findings. It is recommended that the company work with its LTC administrator, LifePlans, to improve the reserving methodology used to mitigate the potential for financial misstatement going forward by including consideration of current assumptions in accordance with industry trends as they relate to claim costs, lapse rates, mortality tables, and potential rate increases to reflect current costs, in accordance with the Statement of Statutory Accounting Principle (SSAP) No. 54 of the NAIC Accounting Practices and Procedures Manual and s. Ins 3.455 (8), Wis. Adm. Code.

Ability Insurance Trust Fund Agreement

The company has established a trust agreement with Ability Insurance Company, its LTC reinsurer, with the Bank of New York Mellon as trustee. The purpose of the trust agreement is to establish a trust account for NICW as beneficiary to collateralize recoverables due from Ability Insurance Company, given past financial status concerns. Review of the Bank of New York Mellon confirmation of the Ability trust account balance as of December 31, 2017, indicated that it was deficient in the amount of approximately $556,000. The above trust account deficiency relates to the funds necessary to cover the full recoverable amount from Ability Insurance Company related to the increase in understated reserves by the LTC opining actuary as of December 31, 2017. The deficiency resulted in an audit adjustment to recognize an additional write-in liability for funding of the Ability trust account, and a corresponding reduction in surplus. NICW follow-up required considerable effort to work with Ability to increase the trust account balance to reflect the above deficiency. It is recommended that the company review its trust account agreement with Ability to amend provisions for account funding from a “time-to-time” basis to a more specific requirement associated with the annual actuarial opinion evaluation of reserve adequacy supported by actuarial update of current assumptions to enhance the company’s ability to obtain timely settlement and ensure adequate collateralization going forward.

Intercompany Agreements

The company has various intercompany agreements primarily with its prior affiliate NIS, which has subsequently been sold in 2018, as follows:

- <u>Commission & Administrative Services Agreement with NIS</u>
  The Commission & Administrative Services Agreement is relatively non-applicable under the current company’s inactive status as it relates to major policy and billing services, which are no longer being written, and claims services, which have been outsourced to third party administrators. The primary significant service currently remaining relates to statutory reporting and filing.

- <u>Profit Sharing Agreement with NIS</u>
  The Profit Sharing Agreement related to NICW payment of a share of profits to NIS generated from LTD policies issued and administered by NIS appears relatively non-applicable under the current inactive status.

- Marketing Services Agreement with NIS
  The Marketing Services Agreement relates to enrollment, solicitation and delivery of advisory and marketing services for LTC business, which has been terminated since 2013 with no plans to reactivate.

It is recommended that the company review various intercompany agreements and either amend to reflect current services under reorganized company operations in relation to the company's inactive status and recent NIS sale, or terminate such agreements if no longer applicable, in accordance with the Statement of Statutory Accounting Principle (SSAP) No. 25 of the NAIC Accounting Practices and Procedures Manual.

Insurance Coverage

The company has historically been named as an additional insured under various corporate insurance policies owned by its affiliate, NIS. This coverage included a $25,000 employee dishonesty fidelity bond coverage. Calculations based on an NAIC suggested exposure index indicate a minimum required coverage of $100,000. Other coverage for personal property, crime, auto, umbrella, and workers compensation has also been as a named additional insurer under NIS policies. The company has never had professional liability coverage. Insurance coverage review indicated that all coverages have been terminated due to the recent sale of NIS based on the management belief that "coverage for NIS under an NIS policy is the appropriate way to handle insurance coverage as NIS personnel are responsible for these functions." Follow-up management inquiry to obtain written acknowledgment of insurance coverage for NIS services provided for NICW resulted in a management-updated response indicating the decision to "self-insure." While NICW essentially no longer has active employees, NIS employees continue to perform a variety of management functions, as well as financial statement preparation, and cash and investment account reconciliation. It is recommended that the company review its insurance program going forward, since it is no longer covered as an additional insured under its NIS affiliate in conjunction with NIS sale.

Money Market Reporting

Review of investment reconciliations and reporting indicated that the company is reporting its money market funds on annual statement Schedule DA – Short Term Investments.

It is recommended that going forward, the company report its money market funds registered under the Investment Company Act of 1940 on Schedule E, Part 2, Cash Equivalents, in accordance with recent revisions under Statement of Statutory Accounting Principle (SSAP) No. 2R of the NAIC Accounting Practices and Procedures Manual.

Executive Compensation Reporting

Review of the company's Executive Compensation Report and the Annual Statement Supplemental Compensation Exhibit noted that all director fees were not properly reported based on the omission of dividends, which was acknowledged by the treasurer. It is recommended that the company's Executive Compensation Report and Supplemental Compensation Exhibit report total compensation paid to each officer, director, and the four most highly paid members of executive management, in accordance with ss. 601.42 and 611.63 (4), Wis. Stat.

Schedule Y Reporting

The prior examination recommended that stockholder dividends be reported on Schedule Y, Part 2, Summary of Insurer's Transactions with Affiliates. Exam review of the most current dividends reported by the company in 2016 of $6,000,000 noted that the dividends were reported on Schedule Y, Part 2. However, they were incorrectly reported under the parent NSI versus NICW. It is recommended that stockholder dividends be properly reported on Schedule Y, Part 2, Summary of Insurer's Transactions with Affiliates, by reporting a NICW dividend to the holding company, NSI, with a footnote that NSI disburses the dividend to the stockholders, in accordance with NAIC Annual Statement Instructions – Property and Casualty.

Ceded Reinsurance Balance Reporting

The prior examination recommended that the company report reinsurance balances in the separate classifications on the annual statement. Follow-up of prior recommendations noted the company continued to report the net amount of reinsurance recoverables from reinsurers and ceded reinsurance premiums payable (net of commissions) as other amounts receivable under reinsurance contracts. It is again recommended that the company report reinsurance balances in their separate classifications on the annual statement, in accordance with NAIC Annual Statement Instructions – Property and Casualty.

VIII. CONCLUSION

NICW reported admitted assets of $13,591,215, liabilities of $2,190,811, and surplus of $11,400,404 as of its amended December 31, 2017, annual statement. The amended statement filing reflected a client engaged actuarial opinion, which concluded that LTC reserves were understated by $1,156,630 on a gross basis.

The company has historically written group long-term disability insurance for school districts and municipalities. Prior to discontinuing this coverage, it also marketed individual long-term care insurance in partnership with its affiliate, NIS and LifePlans, as administrator. NIS, which had produced virtually all business written by NICW and served as its principal managing general agent, was sold in 2018 and, hence, has become an external, third-party service provider.

During the current period under examination, the principal owners decided to the sell the company. Management has implemented plans to prepare for sale of the company, which:

- Discontinued writing long-term care insurance
- Stopped writing new long-term disability products
- Arranged for its affiliate agency, NIS, to move the long-term products on the books to other carriers
- Cancelled its assumed reinsurance agreements
- Completed reserve buyouts related to closed blocks of LTD business
- Outsourced its long-term disability reserve and claims administration to Madison National Life Insurance Company

An overall decline in premium revenue and capital and surplus during the period under examination are the result of management's actions during this period to prepare the company for sale. Management's intention is to sell the company with remaining LTC insurance in its closed book of business, which is 100% reinsured with Ability Insurance Company, a non-rated reinsurer.

A number of recommendations were made to strengthen controls related to the above changes, including areas associated with third-party service provider management, LTC reserve estimation, reinsurer trust agreement funding and intercompany agreement amendment for current applicability, which impact the company until a sale is consummated.

IX. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 25 - Third-Party Service Provider Management—It is recommended that the company exercise due diligence to ensure that various third-party servicers implement appropriate administrative, technical, and physical measures to control and secure the company data processed.

2. Page 25 - Long-Term Care Reserves—It is recommended that the company work with its LTC administrator, LifePlans, to improve the reserving methodology used to mitigate the potential for financial misstatement going forward by including consideration of current assumptions in accordance with industry trends as they relate to claim costs, lapse rates, mortality tables, and potential rate increases to reflect current costs, in accordance with the Statement of Statutory Accounting Principle (SSAP) No. 54 of the NAIC Accounting Practices and Procedures Manual and s. Ins 3.455 (8), Wis. Adm. Code.

3. Page 26 - Ability Insurance Trust Fund Agreement—It is recommended that the company review its trust account agreement with Ability to amend provisions for account funding from a "time-to-time" basis to a more specific requirement associated with the annual actuarial opinion evaluation of reserve adequacy supported by actuarial update of current assumptions, to enhance the company's ability to obtain timely settlement and ensure adequate collateralization going forward.

4. Page 27 - Intercompany Agreements—It is recommended that the company review various intercompany agreements and either amend to reflect current services under reorganized company operations in relation to the company's inactive status and recent NIS sale, or terminate such agreements if no longer applicable, in accordance with the Statement of Statutory Accounting Principle (SSAP) No. 25 of the NAIC Accounting Practices and Procedures Manual.

5. Page 27 - Insurance Coverage—It is recommended that the company review its insurance program going forward, since it is no longer covered as an additional insured under its NIS affiliate in conjunction with NIS sale.

6. Page 28 - Money Market Reporting—It is recommended that going forward, the company report its money market funds registered under the Investment Company Act of 1940 on Schedule E, Part 2, Cash Equivalents, in accordance with recent revisions under Statement of Statutory Accounting Principle (SSAP) No. 2R of the NAIC Accounting Practices and Procedures Manual.

7. Page 28 - Executive Compensation Reporting—It is recommended that the company's Executive Compensation Report and Supplemental Compensation Exhibit report total compensation paid to each officer, director, and the four most highly paid members of executive management, in accordance with ss. 601.42 and 611.63 (4), Wis. Stat.

8. Page 28 - Schedule Y Reporting—It is recommended that stockholder dividends be properly reported on Schedule Y, Part 2, Summary of Insurer's Transactions with Affiliates, by reporting a NICW dividend to the holding company, NSI, with a footnote that NSI disburses the dividend to the stockholders, in accordance with NAIC Annual Statement Instructions – Property and Casualty.

9. Page 28 - Ceded Reinsurance Balance Reporting—It is again recommended that the company report reinsurance balances in their separate classifications on the annual statement, in accordance with NAIC Annual Statement Instructions – Property and Casualty.

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 Janke	Examiner-in-Charge
Adrian Jaramillo	Insurance Financial Examiner
Angelita Romaker	Insurance Financial Examiner
Karl Albert	Workpaper Specialist
Jerry DeArmond	Reserve Specialist
Eleanor Lu	IT Specialist

Respectfully submitted,

Levi Olson
Insurance Financial Examiner Chief