Report

of the

Examination of

Partners Mutual Insurance Company

Waukesha, Wisconsin

As of December 31, 2015

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State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

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April 19, 2017

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:

PARTNERS MUTUAL INSURANCE COMPANY
Waukesha, Wisconsin

and this report is respectfully submitted.

I. INTRODUCTION

The previous examination of Partners Mutual Insurance Company (the company or PMIC) was conducted in 2015 as of December 31, 2014. The current examination covered the one-year period ending December 31, 2015, and included a review of such 2016 transactions as deemed necessary to complete the examination.

The examination of the company was conducted concurrently with the examination of Pennsylvania National Mutual Casualty Insurance Company (PNMCIC). The Pennsylvania Insurance Department acted in the capacity as the lead state for the coordinated examinations. Work performed by the Pennsylvania Insurance Department was reviewed and relied on where deemed appropriate.

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

All accounts and activities of the company were considered in accordance with the risk-focused examination process. This may include assessing significant estimates made by management and evaluating management’s compliance with statutory accounting principles, annual statement instructions, and Wisconsin laws and regulations. The examination does not attest to the fair presentation of the financial statements included herein. If during the course of the examination an adjustment is identified, the impact of such adjustment will be documented separately at the end of the “Financial Data” section in the area captioned "Reconciliation of Surplus per Examination."

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

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

Independent Actuary's Review

An independent actuarial firm was engaged under a contract with the Pennsylvania Insurance Department. The actuary reviewed the adequacy of the group of companies, The Penn National Group (Group), losses and loss adjustment expense reserves. The actuary’s results were reported to the Pennsylvania Insurance Department. As deemed appropriate, reference is made in this report to the actuary’s conclusion.

II. HISTORY AND PLAN OF OPERATION

The company was organized in 1931 as Badger State Casualty Company, Limited Mutual. In February 1992, with approval of the company's policyholders, the company changed its name to Partners Mutual Insurance Company. Effective January 1, 2012, Partners Mutual Insurance Company affiliated with Pennsylvania National Mutual Casualty Insurance Company. The affiliation includes a reinsurance pooling agreement under which PMIC became a participant in PNMCIC's reinsurance pool, and a management agreement under which PMIC utilizes PNMCIC's services. The affiliation agreement places five representatives of PNMCIC on the PMIC board of directors. PMIC continues to operate as a separate entity writing commercial and personal lines in Wisconsin and Iowa but pools risks, shares common services, and has common directors with PNMCIC as described in this report.

In 2015, the company wrote direct premium in the following states:

Iowa	$ 5,889,581	18.35%
Wisconsin	26,209,620	81.65
Total	$32,099,201	100.00%

The company is licensed in Wisconsin, Iowa, Michigan and Pennsylvania, but writes premium in Wisconsin and Iowa only. It discontinued writing premium in Michigan as of September 2011. The major products marketed by the company include auto physical damage, private passenger auto, homeowner's multi-peril, commercial multi-peril, and worker's compensation. The major products are marketed through 936 independent agents at 107 agencies in Iowa and Wisconsin.

The following table is a summary of the net insurance premiums written by the company in 2015. 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	$ 123,947	$ 768,702	$ 123,947	$ 768,702
Allied lines	114,746	74,374	114,746	74,374
Homeowner's multiple peril	7,878,107	1,738,105	7,878,107	1,738,105
Commercial multiple peril	2,644,715	966,391	2,644,715	966,391
Inland marine	997,710	331,618	997,710	331,618
Worker's compensation	1,876,787	1,612,167	1,881,730	1,607,224
Other liability – occurrence	544,453	1,553,811	567,033	1,531,231
Products liability – occurrence		471,491		471,491
Private passenger auto liability	8,717,745	2,338,475	8,717,745	2,338,475
Commercial auto liability	619,699	1,465,101	619,699	1,465,101
Auto physical damage	8,581,292	2,052,995	8,581,292	2,052,995
Fidelity		10,088		10,088
Surety		151,316		151316
Burglary and theft		23		23
Total All Lines	$32,099,201	$13,534,657	$32,126,724	$13,507,134

III. MANAGEMENT AND CONTROL

Board of Directors

The board of directors consists of nine members. Three directors are elected every two years to serve a six-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. Pursuant to the affiliation agreement, PNMCIC obtained control of the board of directors of PMIC by maintaining five representatives of PNMCIC on the nine-member PMIC board. Board members who are not current employees of PNMCIC receive an annual retainer of $5,000 and a fee for attending each regular quarterly board meeting of $1,000, plus reasonable expenses, for serving on the board.

Currently the board of directors consists of the following persons:

Name and Residence	Principal Occupation	Term Expires
Robert B. Brandon* Lewisberry, PA	Executive VP and COO Pennsylvania National Mutual Casualty Insurance Company	2021
Mark H. Ewert Brookfield, WI	Executive VP and COO Partners Mutual Insurance Company	2019
John VanValzah Foster IV* Camp Hill, PA	VP of Underwriting Operations Pennsylvania National Mutual Casualty Insurance Company	2023
Michael N. Herro Waukesha, WI	President and CEO Nickal, LLC	2019
Richard Charles Keith* Harrisburg, PA	President and CEO Partners Mutual Insurance Company	2023
Marc A. Lauret Pewaukee, WI	Executive VP and Treasurer Duwe Metal Products Inc.	2023
Mark F. Roethle Wauwatosa, WI	Research Associate Medical College of Wisconsin	2021
John H. Rhodes* Mechanicsburg, PA	President Rhodes Development Group	2021
Christine Sears* Harrisburg, PA	President and CEO Pennsylvania National Mutual Casualty Insurance Company	2019

* Denotes representatives of PNMCIC.

Officers of the Company

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

Name	Office	2015 Compensation
Richard A. Maffuccio	President and CEO (2015 until May 2016)	$238,291
Richard Charles Keith*	President and CEO (as of May 2016)	
Mark H. Ewert	Executive Vice President, Treasurer (2014) Secretary (as of May 2015)	177,845
Suzanne Chrisemer**	Secretary (2014 until May 2015) and VP-Underwriting	50,073
Robert A. Potter***	Treasurer (as of May 2015), PNMCIC Controller	0

Compensation is amount allocated to PMIC unless otherwise noted.

* In May 2016, CEO Richard Maffuccio announced retirement. Richard Charles Keith was elected as new CEO and also as a board member to replace Richard Maffuccio.

** In May 2015, Suzanne Chrisemer returned to a position at PNMCIC in Pennsylvania. Mark Ewert resumed duties of corporate secretary in addition to his continued duties as Executive Vice President and COO. Robert Potter was elected to the position of Treasurer. Mr. Potter is Vice President and Controller of PNMCIC.

*** No compensation of Robert Potter was directly attributed to PMIC until 2016.

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
Mark H. Ewert, Chair
Marc A. Lauret
Richard Charles Keith
John H. Rhodes
Christine Sears

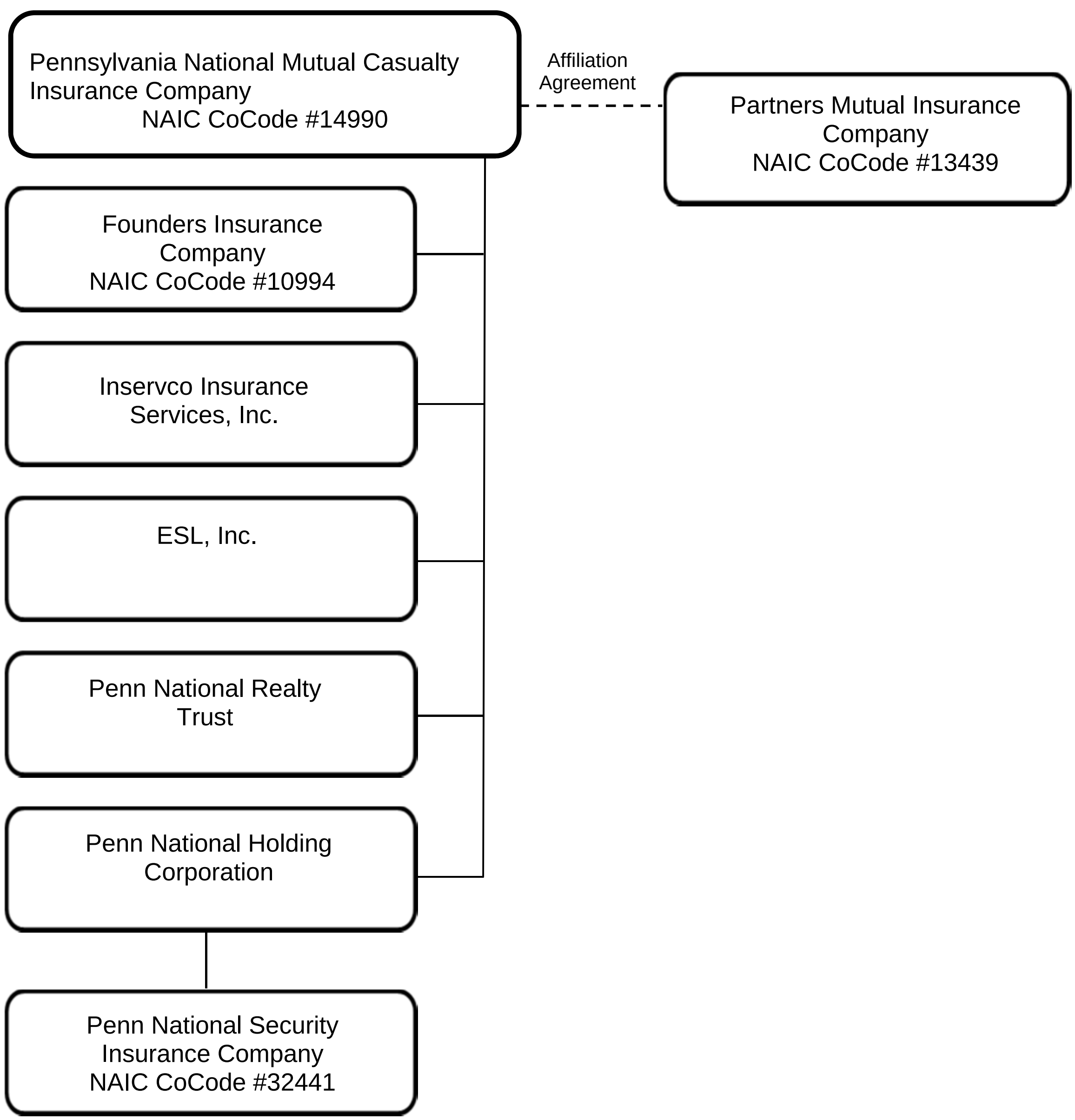
Nominating Committee
Christine Sears, Chair
Michael N. Herro
Mark F. Roethle
John VanValzah Foster IV

Salary Committee
Christine Sears, Chair
Robert B. Brandon
Michael N. Herro

IV. AFFILIATED COMPANIES

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

Organizational Chart
As of December 31, 2015



Pennsylvania National Mutual Casualty Insurance Company

PNMCIC is a multi-line property and casualty insurance company with a nine-state market territory. Pennsylvania, North Carolina, New Jersey, and Alabama represent the largest states. Through an affiliation agreement, PNMCIC maintains control of Partners Mutual Insurance Company by placing a majority of PNMCIC's representatives on the PMIC board of directors. As of December 31, 2015, the audited financial statements of PNMCIC reported assets of $1,233,630,334, liabilities of $662,217,377, and capital and surplus of $571,412,957. Operations for 2015 produced net income of $14,568,733.

Penn National Security Insurance Company

Penn National Security Insurance Company (PNSIC) is a Pennsylvania stock, property and casualty insurance company and is an indirectly wholly owned subsidiary of PNMCIC. PNSIC is party to a pooling agreement with its ultimate parent, PNMCIC, and PMIC. PNSIC is licensed to write commercial and personal lines of business and actively writes commercial lines of business on a direct basis in the states of Alabama, Delaware, Maryland, New Jersey, North Carolina, Pennsylvania, South Carolina, Tennessee, Virginia, and the District of Columbia. As of December 31, 2015, the audited financial statements of PNSIC reported assets of $914,517,574, liabilities of $614,828,392, and capital and surplus of $299,689,182. Operations for 2015 produced net income of $13,260,712.

Founders Insurance Company

Founders Insurance Company (Founders) is a New Jersey stock insurance company and is a wholly owned subsidiary of PNMCIC. Founders is licensed to offer a full line of property and casualty products in the state of New Jersey. Founders entered into a reinsurance agreement with PNMCIC whereby Founders cedes 100% of its direct and assumed insurance business to PNMCIC, including all related fees and expenses. As of December 31, 2015, the audited financial statements of Founders reported assets of $6,466,722, liabilities of $52,300, and capital and surplus of $6,414,422. Operations for 2015 produced a net income of $89,314.

Inservco Insurance Services, Inc.

Inservco Insurance Services, Inc. (Inservco), a wholly owned subsidiary of PNMCIC, is a third-party claims administrator and full service risk management services company. Inservco provides claims adjusting services and other insurance-related services to individual and group self-insured programs, insurance companies, and governmental agencies. As of December 31, 2015, the audited financial statements of Inservco reported assets of $17,122,759, liabilities of $6,452,078, and total common stockholder's equity of $10,670,681.

ESL, Inc.

ESL, Inc. (ESL), a wholly owned subsidiary of PNMCIC, is a trustee of Penn National Realty Trust. ESL, currently inactive, was operated as a wholesale insurance brokerage firm and a Managing General Agent. Effective May 1, 2008, ESL sold the majority of its business to ASL, Inc., and did not renew the retained policies in 2009. As of December 31, 2015, the financial statements of PNMCIC reported an adjusted carrying value for ESL of $0.

Penn National Realty Trust

Penn National Realty Trust (Realty Trust), the owner of the Harrisburg home office of PNMCIC, serves a property rental function. PNMCIC pays rent to Realty Trust for the entire home office and parking garage complex. As of December 31, 2015, the audited financial statements of Realty Trust reported assets of $27,979,440, liabilities of $18,219,509, and total common stockholder's equity of $9,353,000.

Penn National Holding Corporation

Penn National Holding Corporation (PNHC), a wholly owned subsidiary of PNMCIC, is listed as a holding company. PNHC was formed in December 1995 in order to gain access to capital markets. As of December 31, 2015, the audited financial statements of PNHC and Subsidiary reported assets of $1,167,317,000, liabilities of $834,495,000, and total common stockholder's equity of $332,822,000.

V. REINSURANCE

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

Pooling Agreement

On January 1, 2012, PMIC entered into an intercompany pooling agreement with PNMCIC and PNSIC, which provides terms and conditions for the allocation of premiums, losses, loss adjusting expenses, loss recoveries, and general expenses. According to the terms of this agreement, PMIC cedes 100% of premiums, losses, loss adjusting expenses, loss recoveries, and general underwriting expenses to the pool and receives a 2% share of the pooled financial results. PNMCIC and Penn National Security Insurance Company each assume 49% of the pool business. PNMCIC administers this agreement and performs all services in connection with the agreement, including purchasing reinsurance from third parties for the pool business.

Non-affiliated Ceding Contracts

PMIC is a party to a number of ceding reinsurance agreements administered by PNMCIC on behalf of its subsidiaries and affiliates. All non-affiliated ceding reinsurance contracts except contract #10 are multi-cedent reinsurance contracts and apply to PNMCIC and all of its insurance subsidiaries and affiliates. Contracts #1 and #2, each 50% subscribed, provide similar but not identical coverages for the pool.

1.	Type:	First Multiple Line Excess of Loss with Second, Third, and Fourth Casualty per Occurrence Excess of Loss
	Company:	PNMCIC and insurance affiliates
	Reinsurer:	Through intermediary – Various as brokered through Guy Carpenter and Company LLC, at 50% participation

	Participation			
Reinsurer	**1st Layer**	**2nd Layer**	**3rd Layer**	**4th Layer**
Hannover Rück SE	35.00%	35.00%	35.00%	35.00%
Swiss Reinsurance America Corporation	15.00	15.00	15.00	15.00
Total	50.00%	50.00%	50.00%	50.00%

Scope:	Class A – Property: All policies classified by the company as Homeowners Section I, Business Owners Section I, Commercial

Multi-Peril Section I, Automobile Physical Damage, Fire, Allied Lines, Inland Marine, Burglary and Theft.

Class B – Casualty: For First Line Multiple Excess of Loss, all policies classified by the company as Homeowners Section II, Business Owners Section II, Commercial Multi-Peril Section II, General Liability, Automobile Liability, Worker's Compensation (including Employer's Liability and Occupational Disease). For Second, Third, and Fourth Casualty Per Occurrence Excess of Loss, all policies classified by the company as Homeowners Section II, Business Owners Section II, Commercial Multi-Peril Section II, General Liability, Automobile Liability, Product Liability, Worker's Compensation (including Employer's Liability and Occupational Disease).

Retention:

<u>Property</u>:
First Layer – $1,500,000 of ultimate net loss each risk, each loss

<u>Casualty</u>:
First Layer – $1,500,000 of ultimate net loss from each loss occurrence

Second Layer – $5,000,000 of ultimate net loss from each loss occurrence

Third Layer – $10,000,000 of ultimate net loss from each loss occurrence

Fourth Layer – $15,000,000 of ultimate net loss from each loss occurrence

Coverage:

<u>Property</u>:
First Layer – $3,500,000 excess of $1,500,000 retention of ultimate net loss each risk, each loss with maximum limit of $8,750,000 any one loss occurrence

<u>Casualty</u>:
First Layer – $3,500,000 excess of $1,500,000 retention of each and every loss occurrence

Second Layer – $5,000,000 excess of $5,000,000 retention of each and every loss occurrence

Third Layer – $5,000,000 excess of $10,000,000 retention of each and every loss occurrence

Fourth Layer – $5,000,000 excess of $15,000,000 retention of each and every loss occurrence

For coverage beyond fourth layer of Worker's Compensation and Employer's Liability policies, see Reinsurance Contract #6 below

<u>Acts of Terrorism</u>:
First Layer – $3,500,000 of ultimate net loss any one event, with maximum aggregate limit of $8,750,000 all events

	Reinsurance coverage for terrorism activities in Second to Fourth Layers is limited, in aggregate, to reinsurer's limit of liability per single occurrence
Premium:	First Layer – Rate of 1.050% applied to the subject net earned premium and an annual deposit premium of $4,975,300 subject to a minimum of $3,980,240
	Second Layer – Rate of 0.2359% applied to the subject net earned premium and an annual deposit premium of $862,700 subject to a minimum of $690,160
.	Third Layer – Rate of 0.1082% applied to the subject net earned premium and an annual deposit premium of $395,900 subject to a minimum of $316,720
	Fourth Layer – Rate of 0.0959% applied to the subject net earned premium and an annual deposit premium of $350,800 subject to a minimum of $280,640
Reinstatement:	First Layer: seven reinstatements; the first and sixth and seventh are free, the remaining four are at additional premium
	Second through Fourth Layers: one reinstatement per each layer, at additional premium
Effective date:	January 1, 2016
Termination:	Continuous: may be terminated by either party by giving 90 days' notice

2.

Type:	Multiple Line Excess of Loss with First, Second, Third, and Fourth Clash Excess of Loss
Company:	PNMCIC and insurance affiliates
Reinsurer:	Munich Reinsurance America, Inc., at 50% participation
Scope:	Class A – Property: All policies classified by the company as Homeowners Section I, Business Owners Section I, Commercial Multi-Peril Section I, Automobile Physical Damage for auto dealers and voluntary emergency service organization (VESO) programs, Fire, Allied Lines, Inland Marine, Burglary and Theft.
	Class B – Casualty: For Multiple Line Excess of Loss, all policies classified by the company as Worker's Compensation (including Employer's Liability and Occupational Disease). For First, Second, Third, and Fourth Clash Excess of Loss, all policies classified by the company as Homeowners Section II, Business Owners Section II, Commercial Multi-Peril Section II, General Liability, Automobile Liability, Product Liability, Worker's Compensation (including Employer's Liability and Occupational Disease).
Retention:	Property: Multiple Line Excess of Loss – $1,500,000 of ultimate net loss each risk, each loss

Casualty:
Multiple Line Excess of Loss – 1,500,000 of ultimate net loss from each loss occurrence (applies to Worker's Compensation only)

First Clash Layer – $1,500,000 of ultimate net loss from each loss occurrence

Second Clash Layer – $5,000,000 of ultimate net loss from each loss occurrence

Third Clash Layer – $10,000,000 of ultimate net loss from each loss occurrence

Fourth Clash Layer – $15,000,000 of ultimate net loss from each loss occurrence

Coverage:

Property:
Multiple Line Excess of Loss – $3,500,000 excess of $1,500,000 retention of ultimate net loss each risk, each loss with maximum limit of $8,750,000 any one loss occurrence

Casualty:
Multiple Line Excess of Loss – $3,500,000 excess of $1,500,000 retention of each and every loss occurrence (for Worker's Compensation policies only). Reinsurer's limit of liability is $3,500,000 per any one occurrence. The company participates with a 25% share of loss in the first reinstatement of coverage and all subsequent reinstatements are fully covered by reinsurer at 100%.

First Clash Layer – $3,500,000 excess of $1,500,000 retention of each and every loss occurrence. This layer does not apply when there is a Property only loss, a Worker's Compensation only loss, or a combination thereof.

Second Clash Layer – $5,000,000 excess of $5,000,000 retention of each and every loss occurrence

Third Clash Layer – $5,000,000 excess of $10,000,000 retention of each and every loss occurrence

Fourth Clash Layer – $5,000,000 excess of $15,000,000 retention of each and every loss occurrence

Acts of Terrorism:
Multiple Line Excess of Loss – reinsurer liability is limited to $3,500,000 annually in the aggregate as respects one or more of the casualty classes and to $8,750,000 as respects property classes of insurance; and to $8,750,000 as respects both property and casualty classes

Reinsurance coverage for terrorism activities in each clash layer is limited, in aggregate, to reinsurer's limit of liability per single occurrence

	For coverage beyond Fourth Clash layer of Worker's Compensation and Employer's Liability policies, see Reinsurance Contract #6 below
Premium:	Multiple Line Excess of Loss Layer – Rate of 1.375% applied to the subject net earned premium and an annual deposit premium of $6,766,000 subject to a minimum of $5,414,000
	First Clash Layer – Rate of 0.425% applied to the subject net earned premium and an annual deposit premium of $1,242,000 subject to a minimum of $992,000
	Second Clash Layer – Rate of 0.246% applied to the subject net earned premium and an annual deposit premium of $938,000 subject to a minimum of $750,000
.	Third Clash Layer – Rate of 0.101% applied to the subject net earned premium and an annual deposit premium of $386,000 subject to a minimum of $308,000
	Fourth Clash Layer – Rate of 0.080% applied to the subject net earned premium and an annual deposit premium of $306,000 subject to a minimum of $244,000
Reinstatement:	Multi-line Excess of Loss Layer – free and unlimited; all clash layers have one full reinstatement with provisional reinstatement premium (excluding terrorism activities)
Effective date:	January 1, 2016
Termination:	Continuous: may be terminated by either party by giving 90 days' notice
3. Type:	Four Layers Property Catastrophe Excess of Loss
Company:	PNMCIC and insurance subsidiaries and affiliates
Reinsurer:	Through intermediary – Various as brokered through Guy Carpenter and Company LLC. See Exhibit A at the end of this section for a list of participants and reinsurance rates.
Scope:	All policies classified by the company as Automobile Physical Damage, Earthquake, Fire, Allied Lines, Inland Marine, glass and the property portion of Multiple Peril type business
Retention:	First Layer – $20,000,000 each and every loss occurrence
	Second Layer – $40,000,000 each and every loss occurrence
	Third Layer – $100,000,000 each and every loss occurrence
	Fourth Layer – $140,000,000 each and every loss occurrence
Coverage:	First Layer – $20,000,000 each and every loss occurrence
	Second Layer – $60,000,000 each and every loss occurrence

		Third Layer – $40,000,000 each and every loss occurrence
		Fourth Layer – $20,000,000 each and every loss occurrence
	Reinstatement:	All layers have full reinstatement with provisional reinstatement premium
	Effective dates:	First, Second and Third Layers: January 1, 2016, to December 31, 2016, both days inclusive (70% participation) January 1, 2014, to December 31, 2016, both days inclusive (30% participation)
		Fourth Layer: January 1, 2016, to December 31, 2016, both days inclusive (100% participation)
4.	Type:	Property Catastrophe Aggregate Excess of Loss
	Company:	PNMCIC and insurance subsidiaries and affiliates
	Reinsurer:	Through intermediary – Various as brokered through Guy Carpenter and Company LLC. See Exhibit B at the end of this section.
	Scope:	All policies classified by the company as Automobile Physical Damage, Earthquake, Fire, Allied Lines, Inland Marine, glass and the property portion of Multiple Peril type business. Excludes losses from any named tropical cyclone.
	Retention:	$10,000,000, aggregate of subject net loss from all loss occurrences, where subject net loss means amount by which the ultimate net loss for each occurrence exceeds $1,500,000, to a maximum of $8,500,000.
	Coverage:	$10,000,000 excess of $10,000,000 aggregate of subject net losses from loss occurrences
	Premium:	Rate of 1.358% applied to the subject net earned premium and an annual deposit premium of $2,700,000 subject to a minimum of $2,160,000
	Reinstatement:	None.
	Effective dates:	January 1, 2016, to December 31, 2016, both days inclusive
5.	Type:	Worker's Compensation Excess of Loss
	Company:	PNMCIC and insurance subsidiaries and affiliates

Reinsurer: Through intermediary – Various as brokered through Guy Carpenter and Company LLC

Reinsurer	Participation
Arch Reinsurance Company	18.00
Hannover Rück SE	10.00
Odyssey Reinsurance Company	4.00
Partner Reinsurance Company of the U.S.	4.50
Safety National Casualty Corporation	18.00
London: Various Lloyd's Underwriters	45.50
Total	100.00%

Scope: All policies classified as Worker's Compensation and Employer's Liability

Retention: $20,000,000 each and every occurrence

Coverage: $11,000,000, excess of $20,000,000 retention each loss occurrence. For loss occurrences arising out of Acts of Terrorism, coverage is $11,000,000 for any one event and aggregate limit of $11,000,000 as respects all events.

For underlying coverage below $20,000,000 retention of Worker's Compensation and Employer's Liability policies, see Reinsurance Contract #1 and #2 above

For additional coverage of loss occurrences arising out of Acts of Terrorism, see Reinsurance Contract #1, #2, and #7

Premium: Rate of 0.3617% applied to the subject net earned premium and an annual deposit premium of $309,000 subject to a minimum of $247,200

Reinstatement: One full reinstatement at additional premium

Effective dates: January 1, 2016, to December 31, 2016, both days inclusive

6. Type: Nuclear, Biological, Chemical, and Radiological Terrorism Excess of Loss

Company: PNMCIC and insurance subsidiaries and affiliates

Reinsurer: Through intermediary – Various as brokered through Guy Carpenter and Company LLC. London: Various Lloyd's Underwriters have 100% participation.

Scope: All loss occurrences arising out of or related to a Nuclear, Biological, Chemical, and Radiological (NBCR) terrorist activity

Retention: $10,000,000 each and every occurrence

Coverage: $21,000,000 excess of $10,000,000 retention of each loss occurrence, each loss with maximum limit of $21,000,000 any one loss occurrence and $21,000,000 all losses occurring during term of contract

		For underlying coverage below $10,000,000 for losses resulting from terrorist activity, see Reinsurance Contract #1 and #2 above
	Premium:	The company shall pay $210,000 per annual term
	Reinstatement:	None
	Effective dates:	January 1, 2016, to December 31, 2016, both days inclusive
7.	Type:	Cyber Coverage Quota Share Reinsurance Agreement
	Company:	PNMCIC and insurance subsidiaries and affiliates
	Reinsurer:	Berkley Insurance Company
	Scope:	All business classified as Cyber Coverage
	Retention:	20% of ultimate net liability on all new and renewal Cyber Coverage policies
	Coverage:	80% of ultimate net liability on all new and renewal Cyber Coverage policies, subject to a maximum policy limit of $1,000,000
	Premium:	80% of the gross written premium for each policy reinsured under this contract
	Commissions:	30% ceding commission
	Effective date:	November 1, 2015
	Termination:	November 1, 2018; may be terminated by either party by giving to the other party 90 days' prior written notice
8.	Type:	Commercial and Personal Umbrella Liability Excess of Loss
	Company:	PNMCIC and insurance affiliates
	Reinsurer:	Munich Reinsurance America, Inc.
	Scope:	Class A – Commercial umbrella liability Class B – Personal umbrella liability
	Retention:	Class A – Commercial umbrella liability $1,000,000 each and every loss occurrence Class B – Personal umbrella liability $1,000,000 each and every loss occurrence
	Coverage:	Class A – Commercial umbrella liability $9,000,000, each loss occurrence Class B – Personal umbrella liability $4,000,000, each loss occurrence

	Premium:	Class A – Commercial umbrella liability 36.35% of gross written premium for limit of liability on commercial umbrella liability up to $10,000,000 with 0.5% of gross written premium for clash coverage Class B – Personal umbrella liability 36.35% of gross written premium for limit of liability on personal umbrella liability up to $5,000,000 with 0.5% of gross written premium for clash coverage
	Commissions:	Class A and Class B – 30.25% ceding commission
	Effective date:	January 1, 2016
	Termination:	Continuous; may be terminated at the close of any agreement year quarter by either party giving to the other not less than 90 days' prior written notice
9.	Type:	Employment Practices Liability Quota Share Coverage
	Company:	PNMCIC and insurance affiliates
	Reinsurer:	General Reinsurance Corporation
	Scope:	Class A – Individually Underwritten Employment Practices Liability Class B – Portfolio Employment Practices Liability
	Retention:	Class A – 50% of the first $100,000 net loss each claim, and 10% of the next $900,000 net loss each claim in excess of the first $100,000. Limit of liability to company not to exceed $1,000,000 each claim/ $1,000,000 aggregate limit. Class B – 50% of the policy limit. Limit of liability to company not to exceed $100,000 each claim/ $100,000 aggregate limit.
	Coverage:	Class A – 50% of the first $100,000 net loss each claim, and 90% of the next $900,000 net loss each claim in excess of the first $100,000. Adjustment expense is covered proportionate to reinsurer's share of loss, unless there is no net loss, and then 50% of adjustment expenses are covered. Class B – 50% of the policy limit. Adjustment expense is covered proportionate to reinsurer's share of loss, unless there is no net loss, and then 50% of adjustment expenses are covered.
	Premium:	Class A – Premium rate varies based on the policy type, limit of liability, and deductible option Class B – 50% share of written premium
	Commissions:	Class A – Fixed commission allowance of 25% of reinsurance premium Class B – Fixed commission allowance of 25% of reinsurance premium

	Effective date:	July 1, 2011; PMIC was added to this contract effective September 1, 2013
	Termination:	Continuous; may be terminated by either party giving the other 120 days' prior notice in writing
10.	Type:	Equipment Breakdown
	Company:	PMIC
	Reinsurer:	Factory Mutual Insurance Company
	Scope:	Equipment Breakdown Liability
	Retention:	None
	Coverage:	Maximum $5,000,000 on any one risk without prior approval from reinsurer
	Premium:	100% share of written premium, remitted quarterly
	Commissions:	35.0% ceding commission plus profit-sharing of one-half of difference between losses incurred and 30% of premiums earned. If losses incurred exceed 30% of premiums earned, the deficit will be carried to calculation for next profit-sharing period.
	Effective date:	July 1, 2014
	Termination:	By mutual consent or by either party on April 1, July 1, October 1 or January 1 with 180 days' notice by registered mail.

Exhibit A
Property Catastrophe Excess of Loss
Participation Schedule

	1st Layer		2nd Layer		3rd Layer		4th Layer
Reinsurers	**1 Year**	**3 Year**	**1 Year**	**3 Year**	**1 Year**	**3 Year**	**1 Year**
American Agricultural Ins. Co.	10.000%	0.000%	6.500%	0.000%	2.500%	0.000%	2.500%
Amlin Bermuda	1.250	2.143	1.320	2.143	1.250	2.143	
Arch Re Co.		2.133		2.133	3.000	2.133	3.000
Argo Reinsurance Ltd.	3.000		5.000		0.500		
Davinci Reinsurance Ltd.			0.550				
Employers Mutual Casualty Co.	1.500		2.000		1.500		1.500
Endurance Specialty Insurance Ltd.		3.500		3.500		3.500	
Everest Reinsurance Co.							7.500
Hamilton Re, Ltd.			2.750		1.500		5.000
Hannover Re (Bermuda) Ltd.	2.000		5.000		4.000		5.000
Lancashire Insurance Co. Ltd.		0.714		0.714		0.714	
Mapfre Re Compania De Reaseguros, S.A.	2.500		10.000		9.000		10.000
Markel Bermuda Ltd.		2.667		2.667		2.667	
MS Frontier Reinsurance Ltd.					20.000		32.500
Odyssey Reinsurance Co.	1.500				2.000		5.000
Partner Reinsurance Co. Ltd.		2.133		2.133		2.133	
Qatar Reinsurance Co., LLC	0.500		2.000		1.500		
QBE Reinsurance Corp.	4.000		4.000		4.000		
Renaissance Reinsurance Ltd.			0.820				
R+V Versicherung AG	12.500		12.500		12.500		6.500
Shelter Mutual Insurance Co.	1.500		2.750		1.500		3.000
Tokio Millenium Re AG, Bermuda Branch	2.500	1.067	1.880	1.067		1.067	
Validus Reinsurance, Ltd.		3.50		3.500		3.500	
Various Lloyd's Underwriters	27.250%	12.143%	12.930%	12.143%	5.25%	12.143%	18.500%
Subtotal (by contract)	70%	30%	70%	30%	70%	30%	
Total (by each layer)	100%		100%		100%		100%
Rates	1.332%	1.53%	1.403%	1.64%	.583%	.69%	.241%

Exhibit B
Property Catastrophe Aggregate Excess of Loss
Participation Schedule

Reinsurer	Participation %
American Agricultural Insurance Company	3.00
Argo Re Limited	5.00
Davinci Reinsurance Ltd.	4.00
Employers Mutual Insurance Company	1.50
Endurance Specialty Insurance Ltd.	20.00
Everest Reinsurance Company	12.50
Hamilton Re, Ltd.	2.50
Hiscox Insurance Company (Bermuda) Ltd.	3.50
Markel Bermuda Ltd.	7.50
Renaissance Reinsurance Ltd.	6.00
R+V Versicherung AG	17.50
Shelter Mutual Insurance Company	2.50
Swiss Reinsurance America Corporation	10.00
London: Various Lloyd's Underwriters	4.50
Total	100.00

VI. FINANCIAL DATA

The following financial statements reflect the financial condition of the company as reported to the Commissioner of Insurance in the December 31, 2015, 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.

Partners Mutual Insurance Company
Assets
As of December 31, 2015

	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	$26,815,267	$	$26,815,267
Stocks:			
Common stocks	80,673		80,673
Cash, cash equivalents, and short-term investments	1,231,528		1,231,528
Investment income due and accrued	169,043		169,043
Premiums and considerations:			
Uncollected premiums and agents' balances in course of collection	2,872,511	13,294	2,859,217
Deferred premiums, agents' balances, and installments booked but deferred and not yet due	3,308,463		3,308,463
Accrued retrospective premiums			
Reinsurance:			
Amounts recoverable from reinsurers	6,169,205		6,169,205
Funds held by or deposited with reinsured companies	121,063		121,063
Current federal and foreign income tax recoverable and interest thereon	5,000		5,000
Net deferred tax asset	3,408,657	2,634,687	773,970
Guaranty funds receivable or on deposit	26,227		26,227
Electronic data processing equipment and software	65,812		65,812
Furniture and equipment, including health care delivery assets	7,771	7,771	
Receivable from parent, subsidiaries, and affiliates	1,101,010		1,101,010
Write-ins for other than invested assets:			
Miscellaneous receivables	2,936	500	2,436
Prepaid expenses	35,017	35,017	
Cash surrender value of life insurance	12,735		12,735
Leasehold Improvements	6,423	6,423	
Equities and deposits pooled	21,904		21,904
Total Assets	$45,461,245	$2,697,692	$42,763,553

Partners Mutual Insurance Company
Liabilities, Surplus, and Other Funds
As of December 31, 2015

Losses		$10,605,602
Reinsurance payable on paid loss and loss adjustment expenses		1,997,534
Loss adjustment expenses		2,862,869
Commissions payable, contingent commissions, and other similar charges		389,407
Other expenses (excluding taxes, licenses, and fees)		352,025
Taxes, licenses, and fees (excluding federal and foreign income taxes)		131,293
Unearned premiums		6,108,193
Dividends declared and unpaid:		
Stockholders		
Policyholders		5,506
Ceded reinsurance premiums payable (net of ceding commissions)		7,145,720
Funds held by company under reinsurance treaties		591
Amounts withheld or retained by company for account of others		378,225
Remittances and items not allocated		81,641
Drafts outstanding		247,155
Write-ins for liabilities:		
Miscellaneous payables		2,057
Additional minimum pension liability		2,958,341
Advance cash direct bill		100,559
Retrospective premiums		6,669
Total liabilities		33,373,387
Write-ins for other than special surplus funds:		
Guaranty funds	$1,000,000	
Unassigned funds (surplus)	8,390,166	
Surplus as regards policyholders		9,390,166
Total Liabilities and Surplus		$42,763,553

Partners Mutual Insurance Company
Summary of Operations
For the Year 2015

Underwriting Income		
Premiums earned		$13,367,606
Deductions:		
Losses incurred	$7,407,864	
Loss adjustment expenses incurred	1,276,592	
Other underwriting expenses incurred	4,524,195	
Total underwriting deductions		13,208,651
Net underwriting gain (loss)		158,955
Investment Income		
Net investment income earned	508,278	
Net realized capital gains (losses)	26,799	
Net investment gain (loss)		535,077
Other Income		
Net gain (loss) from agents' or premium balances charged off	(52,371)	
Finance and service charges not included in premiums	190,334	
Write-ins for miscellaneous income:		
Miscellaneous income	(366,635)	
Total other income		(228,672)
Net income (loss) before dividends to policyholders and before federal and foreign income taxes		465,360
Dividends to policyholders		107,234
Net income (loss) after dividends to policyholders but before federal and foreign income taxes		358,126
Federal and foreign income taxes incurred		(18,734)
Net Income (Loss)		$ 376,860

Partners Mutual Insurance Company
Cash Flow
For the Year 2015

Premiums collected net of reinsurance			$14,185,397
Net investment income			775,038
Miscellaneous income			187,303
Total			15,147,738
Benefit- and loss-related payments		$ 7,234,507	
Commissions, expenses paid, and aggregate write-ins for deductions		4,590,463	
Dividends paid to policyholders		103,484	
Federal and foreign income taxes paid (recovered)		(4,825)	
Total deductions			11,923,629
Net cash from operations			3,224,109
Proceeds from investments sold, matured, or repaid:			
Bonds	$12,620,416		
Total investment proceeds		12,620,416	
Cost of investments acquired (long-term only):			
Bonds	17,841,321		
Total investments acquired		17,841,321	
Net cash from investments			(5,220,905)
Other cash provided (applied)		(1,104,294)	
Net cash from financing and miscellaneous sources			(1,104,294)
Reconciliation:			
Net change in cash, cash equivalents, and short-term investments			(3,101,090)
Cash, cash equivalents, and short-term investments:			
Beginning of year			4,332,618
End of Year			$ 1,231,528

Partners Mutual Insurance Company
Compulsory and Security Surplus Calculation
December 31, 2015

Assets		$42,763,553
Less liabilities		33,373,387
Adjusted surplus		8,789,245
Annual premium:		
Lines other than accident and health	$13,399,900	
Factor	20%	
Compulsory surplus (subject to a minimum of $2 million)		2,679,980
Compulsory Surplus Excess (or Deficit)		$ 6,109,265
Adjusted surplus (from above)		$ 8,789,245
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%)		3,751,972
Security Surplus Excess (or Deficit)		$ 5,037,273

Partners Mutual Insurance Company
Analysis of Surplus
For the Five-Year Period Ending December 31, 2015

The following schedule details items affecting surplus during the five-year period ending December 31, 2015, as reported by the company in its filed annual statements:

	2015	2014	2013	2012	2011
Surplus, beginning of year	$8,617,391	$9,018,315	$7,931,944	$7,517,502	$11,323,736
Net income	376,860	357,109	289,121	1,476,989	(2,459,347)
Change in net unrealized capital gains/losses	3,294	14,292		161,565	(7,518)
Change in net deferred income tax	(135,010)	86,935	(300,288)	(62,069)	1,528,932
Change in nonadmitted assets	158,777	26,678	439,952	69,144	(1,892,267)
Cumulative effect of changes in accounting principles					103,000
Write-ins for gains and (losses) in surplus:					
Change in defined benefit plan additional minimum liability	368,854	(885,938)	657,586	(1,231,188)	(591,417)
Change in surplus-application of SSAP 10R					(487,617)
Surplus, End of Year	$9,390,166	$8,617,391	$9,018,315	$7,931,944	$ 7,517,502

Partners Mutual Insurance Company
Insurance Regulatory Information System
For the One-Year Period Ending December 31, 2015

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	2015
#1	Gross Premium to Surplus	486.0%
#2	Net Premium to Surplus	144.0
#3	Change in Net Premiums Written	1.0
#4	Surplus Aid to Surplus	0.0
#5	Two-Year Overall Operating Ratio	98.0
#6	Investment Yield	1.9*
#7	Gross Change in Surplus	9.0
#8	Change in Adjusted Surplus	9.0
#9	Liabilities to Liquid Assets	106.0*
#10	Agents' Balances to Surplus	30.0
#11	One-Year Reserve Development to Surplus	-3.0
#12	Two-Year Reserve Development to Surplus	-6.0
#13	Estimated Current Reserve Deficiency to Surplus	0.0

The Investment Yield Ratio (IRIS Ratio No. 6) measures the amount of the company's net investment income as a percentage of the average amount of cash and invested assets. The exceptional ratio is primarily a result of low returns on the company's bond portfolio and other invested asset holdings. The company's investment strategy concentrates on investing primarily in bonds, which have had a comparatively low yield.

Ratio No. 9, Liabilities to Liquid Assets, had exceptional results in 2015. The ratio is affected by a timing issue with reinsurance pooled results, where the company has year-end reinsurance premium payables as liabilities, but reinsurance recoverables are not considered to be liquid assets.

Growth of Partners Mutual Insurance Company

Year	Admitted Assets	Liabilities	Surplus as Regards Policyholders	Net Income
2015	$42,763,553	$33,373,387	$ 9,390,166	$ 376,860
2014	40,362,468	31,745,077	8,617,391	357,109
2013	39,202,072	30,183,757	9,018,315	289,121
2012	36,697,935	28,765,991	7,931,944	1,476,989
2011	34,267,364	26,749,863	7,517,502	(2,459,347)
2010	43,318,568	31,994,831	11,323,736	(1,960,137)

Year	Gross Premium Written	Net Premium Written	Premium Earned	Loss And LAE Ratio	Expense Ratio	Combined Ratio
2015	$45,633,858	$13,507,134	$13,367,606	65.0%	35.2%	100.1%
2014	42,782,132	13,325,988	13,063,622	64.8	34.1	98.9
2013	39,327,418	12,890,716	12,395,154	65.5	33.7	99.2
2012	40,438,981	6,960,952	11,415,212	77.4	20.0	97.4
2011	30,622,247	26,060,319	30,062,100	84.7	34.0	118.7
2010	38,896,271	34,776,453	33,219,876	77.1	32.0	109.1

Partners Mutual Insurance Company reported underwriting and net losses in 2010 and 2011, with the highest net loss of $2,459,347 in 2011. These larger losses were partially due to severe storms in 2010 and 2011 in Wisconsin, the company's largest territory.

Effective January 1, 2012, PMIC and PNMCIC entered into an affiliation and pooling reinsurance agreement. PMIC currently cedes all of its premiums, losses, loss adjusting and underwriting expenses to the pool, and receives 2% of the pooled business. As a result of large losses from severe storms in Wisconsin in 2010 and 2011, the company's surplus had decreased 42.5% during 2010 and 2011, and then increased by 24.9% since the affiliation with PNMCIC. As a result of pooled underwriting efforts over a larger geographic area and more diverse business mix, PMIC had net income the next four years through 2015. The highest gain occurred in 2012 with net income of $1,476,989, due partially to one-time ceding commission received from the pool. The company's loss and LAE ratio has improved since the affiliation, decreasing from its highest value of 84.7% in 2011 to 65.0% in 2015. The combined ratio results also improved since the affiliation, paralleling the loss and LAE ratio.

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, 2015, 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. Books and Records—It is recommended that the company maintain minutes of the proceedings of its policyholders, board of directors and committees having any authority of the board of directors.

   Action—Compliance.

2. Custodial Agreement—It is recommended that the company amend its safekeeping agreement to contain satisfactory safeguards and controls consistent with the NAIC's Financial Condition Examiners Handbook.

   Action—Compliance.

3. Agent Licensing—It is recommended that the company continue to improve its process to review and update its internal company information concerning all the company's agent appointments and terminations in accordance with s. 628.11, Wis. Stat.

   Action—Compliance.

4. Claims Reserves—It is suggested that the company continue to improve the process to estimate and properly report reinsurance recoverable on both annual and quarterly statutory statements.

   Action—Compliance.

Summary of Current Examination Results

The current examination resulted in no exam recommendations, reclassifications, or surplus adjustments.

VIII. CONCLUSION

Partners Mutual Insurance Company continues to operate as a separate entity writing commercial and personal lines in Wisconsin and Iowa, but pools risks, shares common services, and has common directors with Pennsylvania National Mutual Casualty Insurance Company. The major products marketed by the company include auto physical damage, private passenger auto, homeowner's multi-peril, commercial multi-peril, and worker's compensation. The major products are marketed in Iowa and Wisconsin.

Policyholders' surplus as reported by the company increased from $8,617,391 at the end of 2014 to $9,390,166 at the end of 2015. The company's admitted assets increased 5.95% and liabilities increased 5.13% over the one-year period under review.

Effective January 1, 2012, Partners Mutual Insurance Company and Pennsylvania National Mutual Casualty Insurance Company entered into an affiliation and pooling reinsurance agreement. Since entering into the agreements, PMIC had net income the next four years through 2015. The company's loss and LAE ratio and combined ratio results have improved since the affiliation.

The prior examination resulted in three recommendations and one suggestion. The company complied with all prior examination recommendations and suggestions. The current examination resulted in no recommendations, reclassifications, or surplus adjustments.

IX. SUMMARY OF COMMENTS AND RECOMMENDATIONS

The current examination resulted in no exam recommendations, reclassifications, or surplus adjustments.

X. SUBSEQUENT EVENTS

Pennsylvania National Mutual Casualty Insurance Company, Penn National Security Insurance Company, and Partners Mutual Insurance Company operate in a pooling agreement, with PNMCIC serving as the lead company. At December 31, 2015, PNMCIC had a defined benefit pension plan covering its employees with an additional minimum liability. This liability was shared equally between PNMCIC and PNSIC with each company recording a reduction to surplus. PMIC also had a separate defined benefit plan covering its employees with an additional minimum liability and corresponding reduction to surplus.

On January 1, 2016, all PMIC employees were transferred to PNMCIC. Consequently, the PMIC defined benefit pension plan was merged with the PNMCIC plan. As a result, the PMIC additional minimum liability was transferred to PNMCIC and combined with the existing additional minimum liability to create a pooled liability of $34,933,197. PMIC subsequently received 2% of this pooled liability or $698,664. The difference between the December 31, 2015, and January 1, 2016, liability of $2,958,341 and $698,664, respectively, was $2,259,677. This equated to an increase in the surplus of PMIC with a corresponding surplus decrease to both PNMCIC and PNSIC of $1,129,839.

XI. 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 Litweiler	ACL Specialist
Tom Houston	IT Specialist
Jerry DeArmond	Reserve Specialist

Respectfully submitted,

James Lindell
Examiner-in-Charge