

Report  
of the  
Examination of  
SU Insurance Company  
Oak Creek, Wisconsin  
As of December 31, 2016

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# State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

Scott Walker, Governor  
Theodore K. Nickel, Commissioner

Wisconsin.gov

February 22, 2018

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

Commissioner:

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

SU INSURANCE COMPANY  
Oak Creek, Wisconsin

and this report is respectfully submitted.

## I. INTRODUCTION

The previous examination of SU Insurance Company, (hereinafter SUIC or the company), was conducted in 2012 as of December 31, 2011. The current examination covered the intervening period ending December 31, 2016, and included a review of such 2017 and 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.

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. Wipfli, LLP, provides the auditing services for the company, while the company utilizes Strohm Ballweg, LLP, for non-audit and various other consulting services.

## II. HISTORY AND PLAN OF OPERATION

The company was organized pursuant to the laws of the state of Wisconsin on March 7, 2005, and commenced business on April 27, 2005. The company was formed with \$7 million in capital (consisting of \$2 million in common stock and \$5 million in surplus notes). In 2006, the company's capitalization was increased through the issuance of an additional \$2 million surplus note.

The company was formed to underwrite the Equipment Maintenance Insurance<sup>1</sup> program of its affiliate, Specialty Underwriters LLC, (hereinafter SU LLC), which writes uninsured equipment maintenance products. This program had formerly been externally placed with The Continental Insurance Company. The company pays the general agent (SULLC) the 22% commission on the assumed business.

Effective December 1, 2006, SUIC entered into a quota share reinsurance agreement with State National Insurance Company, (hereinafter State National), whereby SUIC assumes business fronted on its behalf in states where it is not yet licensed.

As of December 31, 2016, the company was licensed in 40 states. During 2016, the company wrote direct premiums in the following states:

Iowa	\$13,476,876	91.5%
Pennsylvania	1,177,769	8.0%
Wisconsin	45,679	0.3%
Michigan	18,681	0.1%
Louisiana	<u>17,474</u>	<u>0.1%</u>
Total	<u>\$14,736,479</u>	<u>100.0%</u>

The only product marketed by the company is Equipment Maintenance Insurance (EMI), which is a type of inland marine insurance. The actual contract is referred to as an equipment maintenance policy, whereby the company insures against loss resulting from "...fortuitous corrective maintenance costs for the scheduled equipment caused by electrical or mechanical breakdown, human error, power surge fluctuations within one hundred feet of the building in which the affected item of scheduled equipment is located, and environmental

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<sup>1</sup> Equipment Maintenance Insurance covers the cost of repairs to an insured's equipment, and in some cases, pays for rental of a replacement unit for a period of time, should the damaged equipment need to be sent out for servicing.

changes.” There are significant exclusions, such as “fire, lightning, windstorm, civil commotion, hail and perils generally covered under the insurance industry standard Insurance Services Office (ISO), boiler and machinery, electronic data processing and ‘all risk’ property forms.” The policies are written on an annual basis, with varying premium modes (ranging from monthly to quarterly).

Typically, there is a significant amount of endorsement activity throughout the year as equipment changes occur. Insureds can also modify certain named perils via an endorsement. Most contracts have multiple endorsements which are tailored to the specific entity.

The following table is a summary of the net insurance premiums written by the company in 2016. The growth of the company is discussed in the “Financial Data” section of this report.

<b>Line of Business</b>	<b>Direct Premium</b>	<b>Reinsurance Assumed</b>	<b>Reinsurance Ceded</b>	<b>Net Premium</b>
Inland marine	<u>\$14,736,479</u>	<u>\$673,262</u>	<u>\$0</u>	<u>\$15,409,741</u>
Total All Lines	<u>\$14,736,479</u>	<u>\$673,262</u>	<u>\$0</u>	<u>\$15,409,741</u>

### III. MANAGEMENT AND CONTROL

#### Board of Directors

The board of directors consists of five members. All directors are elected annually to serve a one-year term. Officers are elected at the annual shareholder's meeting. The board members currently receive no compensation for serving on the board, with the exception of Thomas J. Nichols, who is compensated at his regular hourly rate as counsel to the company.

Currently the board of directors consists of the following persons:

Name and Residence	Principal Occupation	Term Expires
Michael H. Polaski Oak Creek, Wisconsin	Chief Executive Officer SU Group LLC and Affiliates	2018
Michael J. Polaski Oak Creek, Wisconsin	Director of Account Management SU Insurance Company	2018
Jennifer A. McFarland Oak Creek, Wisconsin	Childrearing	2018
Thomas J. Nichols Elm Grove, Wisconsin	Shareholder Meissner Tierney Fisher & Nichols, S.C.	2018
Sarah M. McLean Franksville, Wisconsin	Childrearing	2018

#### Officers of the Company

The officers serving at the time of this examination are listed below. It should be noted that only Michael J. Polaski is compensated from the funds of SUIC. He is paid a fixed salary along with a discretionary bonus and other fringe benefits. However, commissions are paid to SU LLC for agent services, and Michael H. Polaski and Michael J. Polaski are compensated through their ownership participations in SU LLC and other SU Group entities. Additionally, Michael H. Polaski owns 100% of SUIC.

Name	Office	2016 Compensation
Michael H. Polaski	President/Treasurer	\$300,000
Michael J. Polaski	Vice President	197,816
Mary B. Donohue	Secretary	0

## **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**

Michael J. Polaski, Chair  
Michael H. Polaski  
Thomas J. Nichols

### **Audit Committee**

Thomas J. Nichols, Chair  
Sarah M. McLean  
Jennifer A. McFarland



#### IV. AFFILIATED COMPANIES

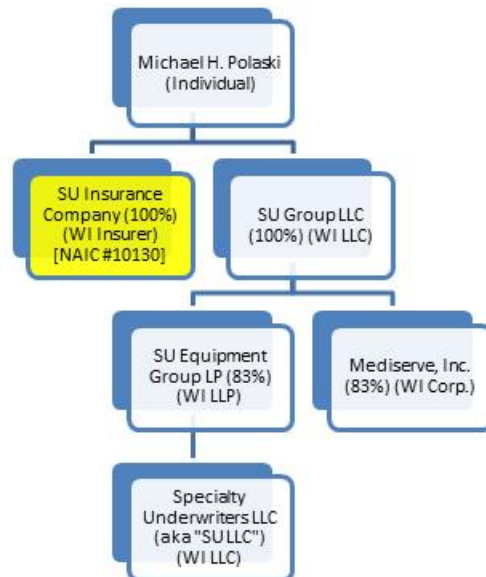
SU Insurance Company is a member of a holding company system. The organizational chart below depicts the relationships among the affiliates in the group. A brief description of the significant affiliates follows the organizational chart. As noted on the organizational chart, Michael H. Polaski is the ultimate controlling person of SU Group.

Only two entities have a functional relationship with SUIC. Those entities are SU LLC and Mediserve, Inc. SU LLC provides certain services to SUIC pursuant to an Agency Agreement (discussed below). Mediserve, Inc., is a sub-agency of SU LLC, which is primarily responsible for obtaining and maintaining client relationships with medical entities, such as hospitals and university medical centers. In addition, SU Group LLC holds SUIC's surplus notes, but has no other functional or operational transactions with SUIC.

Below is an abbreviated organizational chart of the holding company system:

#### Organizational Chart

As of December 31, 2016



### **Specialty Underwriters LLC (SU LLC)**

SU LLC has been providing EMI and related products for over 30 years. As of December 31, 2016, the audited financial statements of SU LLC reported assets of \$16,332,212, liabilities of \$12,814,077, and owners' equity of \$3,518,135. Operations for 2016 produced net income of \$3,242,012.

### **Mediserve, Inc.**

Mediserve, Inc., is a sub-agency of SU LLC. Mediserve, Inc., is responsible for developing and maintaining the company's book of business with medical commercial clients such as hospitals and medical clinics. As of December 31, 2016, the audited financial statements of Mediserve, Inc., reported assets of \$3,826,235, liabilities of \$1,513,695, and owners' equity of \$2,312,540. Operations for 2016 produced net income of \$1,481,805.

### **Agreements with Affiliates**

#### **Agency Agreement**

SUIC appointed SU LLC to act as its agent for the solicitation of business pursuant to an Agency Agreement dated April 1, 2005. The Agency Agreement, which was rewritten on January 1, 2009, provides for the provision of certain services to SUIC by SU LLC, including acquisition, underwriting, policy administration, and claims services. In exchange for these services, SU LLC receives an 18% commission on new and renewal business. In addition, SU LLC is entitled to a royalty payment equal to seventy-five percent (75%) of SUIC's profits before income tax for the use of SU LLC's underwriting data, proprietary software, documentation, forms, techniques, and other intellectual property subject to nondisapproval by OCI. The arrangement between SUIC and SU LLC is predicated upon SUIC being able to benefit from SU LLC's long-standing client and vendor relationships, and proprietary expertise with respect to the acquisition, underwriting, policy administration, and loss adjustment of equipment maintenance contracts.

## V. REINSURANCE

SU Insurance Company has one assuming reinsurance arrangement in place with State National Insurance Company, Inc., a quota share reinsurance agreement dated December 1, 2006, whereby SUIC accepts 100% of the business fronted on its behalf. The parties to the reinsurance agreement are SUIC, State National, and SU LLC. The reinsurance agreement's business purpose is to facilitate SUIC's expansion into states where it is not currently authorized to write business. The contract contains proper insolvency provisions. The company has no ceding contracts.

### Nonaffiliated Assuming Contract

1. Type: Quota Share
- Reinsurer: State National Insurance Company (SNIC)
- Scope: Equipment Maintenance Insurance written by SU LLC
- Retention: SNIC cedes 100% of business underwritten by SU LLC to SU Insurance Company
- Coverage: Commercial inland marine and miscellaneous other coverages applicable on each and every quota share loss, including loss adjustment expense, subject to policy maximums of \$5,000,000 per policy and \$1,500,000 for any single piece of equipment
- Premium: The company collects premiums and forwards a commission of 22% to the general agent on or about the 15<sup>th</sup> day of the month, but no later than 45 days from receipt. The general agent shall pay within 45 days of the end of the month to SNIC an amount equal to the state premium tax on the net premiums and net policy fees.
- Commissions: General agent shall pay, and reinsurer shall guarantee, SNIC a fee directly within 45 days following the end of each month, equal to 6% of net premiums and net policy fees. Minimum ceding fee due to SNIC is \$100,000 for 12 months. A shortfall of the minimum ceding fee is paid by the company.
- Effective date: December 1, 2006
- Termination: At any time by either party giving the other 90 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, 2016, 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.

**SU Insurance Company  
Assets  
As of December 31, 2016**

	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	\$ 8,042,599	\$	\$ 8,042,599
Stocks:			
Common stocks	1,659,227		1,659,227
Cash, cash equivalents, and short-term investments	9,300,810		9,300,810
Investment income due and accrued	60,925		60,925
Premiums and considerations:			
Uncollected premiums and agents' balances in course of collection	314,202	12,295	301,907
Deferred premiums, agents' balances, and installments booked but deferred and not yet due	3,337,907		3,337,907
Net deferred tax asset	485,017		485,017
Write-ins for other than invested assets:			
State income tax receivable	9,338		9,338
Miscellaneous receivable	<u>16,541</u>	<u>          </u>	<u>16,541</u>
<b>Total Assets</b>	<b><u>\$23,226,566</u></b>	<b><u>\$12,295</u></b>	<b><u>\$23,214,271</u></b>

**SU Insurance Company  
Liabilities, Surplus, and Other Funds  
As of December 31, 2016**

Losses		\$ 1,209,807
Loss adjustment expenses		119,886
Commissions payable, contingent commissions, and other similar charges		1,192,724
Other expenses (excluding taxes, licenses, and fees)		48,142
Taxes, licenses, and fees (excluding federal and foreign income taxes)		57,362
Current federal and foreign income taxes		164,654
Unearned premiums		7,288,399
Payable to parent, subsidiaries, and affiliates		270,516
<b>Total Liabilities</b>		<b>10,351,490</b>
Common capital stock	\$5,000,000	
Surplus notes	2,000,000	
Gross paid in and contributed surplus	2,000,000	
Unassigned funds (surplus)	<u>3,862,781</u>	
<b>Surplus as Regards Policyholders</b>		<b><u>12,862,781</u></b>
<b>Total Liabilities and Surplus</b>		<b><u>\$23,214,271</u></b>

**SU Insurance Company  
Summary of Operations  
For the Year 2016**

<b>Underwriting Income</b>		
Premiums earned		\$14,653,574
Deductions:		
Losses incurred	\$6,999,891	
Loss adjustment expenses incurred	1,865,695	
Other underwriting expenses incurred	5,469,412	
Total underwriting deductions		<u>14,334,998</u>
Net underwriting gain (loss)		318,576
<b>Investment Income</b>		
Net investment income earned	141,973	
Net realized capital gains (losses)	<u>41,853</u>	
Net investment gain (loss)		183,826
<b>Other Income</b>		
Write-ins for miscellaneous income:		
Other income	<u>223</u>	
Total other income		<u>223</u>
Net income (loss) before dividends to policyholders and before federal and foreign income taxes		502,625
Net income (loss) after dividends to policyholders but before federal and foreign income taxes		502,625
Federal and foreign income taxes incurred		<u>192,020</u>
Net Income		<u>\$ 310,605</u>

**SU Insurance Company  
Cash Flow  
For the Year 2016**

Premiums collected net of reinsurance		\$15,238,853
Net investment income		174,339
Miscellaneous income		<u>223</u>
Total		15,413,415
Benefit- and loss-related payments	\$6,945,720	
Commissions, expenses paid, and aggregate write-ins for deductions	7,323,804	
Federal and foreign income taxes paid (recovered)	<u>(10,000)</u>	
Total deductions		<u>14,259,524</u>
Net cash from operations		1,153,891
Proceeds from investments sold, matured, or repaid:		
Bonds	\$3,963,149	
Stocks	1,822,378	
Total investment proceeds		5,785,527
Cost of investments acquired (long-term only):		
Bonds	2,784,270	
Stocks	410,891	
Miscellaneous applications	<u>17,015</u>	
Total investments acquired		<u>3,212,176</u>
Net cash from investments		2,573,351
Other cash provided (applied)	<u>118,895</u>	
Net cash from financing and miscellaneous sources		<u>118,895</u>
<b>Reconciliation:</b>		
Net Change in Cash, Cash Equivalents, and Short-Term Investments		3,846,137
Cash, cash equivalents, and short-term investments:		
Beginning of year		<u>5,454,673</u>
End of Year		<u>\$ 9,300,810</u>

**SU Insurance Company  
Compulsory and Security Surplus Calculation  
December 31, 2016**

Assets		\$23,214,271
Less liabilities		<u>10,351,490</u>
Adjusted surplus		12,862,781
Annual premium:		
Lines other than accident and health	\$15,409,741	
Factor	<u>20%</u>	
Compulsory surplus (subject to a minimum of \$2 million)		<u>3,081,948</u>
Compulsory Surplus Excess (Deficit)		<u>\$9,780,833</u>
Adjusted surplus (from above)		\$12,862,781
Security surplus (140% of compulsory surplus, factor reduced 1% for each \$33 million in premium written in excess of \$10 million, with a minimum factor of 110%)		<u>4,314,727</u>
Security Surplus Excess (Deficit)		<u>\$ 8,548,054</u>



**SU Insurance Company  
Analysis of Surplus  
For the Five- Year Period Ending December 31, 2016**

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

	2016	2015	2014	2013	2012
Surplus, beginning of year	\$12,340,261	\$12,113,515	\$11,990,401	\$11,558,878	\$11,016,851
Net income	310,605	285,665	231,694	327,266	399,147
Change in net unrealized capital gains/losses	147,670	(58,844)	(173,478)	87,053	32,989
Change in net deferred income tax	42,808	(22,592)	106,924	19,426	81,772
Change in nonadmitted assets	<u>21,437</u>	<u>22,517</u>	<u>(42,026)</u>	<u>(2,222)</u>	<u>28,119</u>
Surplus, End of Year	<u>\$12,862,781</u>	<u>\$12,340,261</u>	<u>\$12,113,515</u>	<u>\$11,990,401</u>	<u>\$11,558,878</u>

**SU Insurance Company  
Insurance Regulatory Information System  
For the Five-Year Period Ending December 31, 2016**

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

Ratio	2016	2015	2014	2013	2012
#1 Gross Premium to Surplus	120%	111%	122%	97%	92%
#2 Net Premium to Surplus	120	111	122	97	92
#3 Change in Net Premiums Written	12	-7	27	10	37*
#4 Surplus Aid to Surplus	0	0	0	0	0
#5 Two-Year Overall Operating Ratio	97	97	96	92	91
#6 Investment Yield	0.8*	0.7*	0.7*	0.9*	1.4*
#7 Gross Change in Surplus	4	2	1	4	5
#8 Change in Adjusted Surplus	4	2	1	4	5
#9 Liabilities to Liquid Assets	37	35	38	29	28
#10 Agents' Balances to Surplus	2	2	2	0	4
#11 One-Year Reserve Development to Surplus	-1	-2	0	1	1
#12 Two-Year Reserve Development to Surplus	-2	0	1	1	-1
#13 Estimated Current Reserve Deficiency to Surplus	-2	-1	2	1	0

Ratio No. 3 measures the change in net premiums written from the prior year. The exceptional result for 2012 was due primarily to a 33% increase in premiums written in the state of Iowa.

Ratio No. 6 measures the company's return on investment. The low investment yield for all years under examination is primarily due to the company's conservative portfolio, accompanied by the low interest rate environment. The low interest rate environment is affecting all insurers in the industry; therefore, the unusual value was not considered a significant concern.

### Growth of SU Insurance Company

Year	Admitted Assets	Liabilities	Surplus as Regards Policyholders	Net Income
2016	\$23,214,271	\$10,351,490	\$12,862,781	\$310,605
2015	21,593,659	9,253,398	12,340,261	285,665
2014	22,212,475	10,098,960	12,113,515	231,694
2013	19,650,022	7,659,621	11,990,401	327,266
2012	18,770,520	7,211,642	11,558,878	399,147
2011	16,435,128	5,418,277	11,016,851	433,687

Year	Gross Premium Written	Net Premium Written	Premium Earned	Loss and LAE Ratio	Expense Ratio	Combined Ratio
2016	\$15,409,741	\$15,409,741	\$14,653,574	60.5%	35.5%	96.0%
2015	13,703,282	13,703,282	13,905,087	65.1	33.8	98.9
2014	14,801,135	14,801,135	13,365,408	66.2	30.6	96.8
2013	11,641,232	11,641,232	11,324,568	67.6	30.3	97.9
2012	10,587,317	10,587,317	9,241,648	64.9	26.3	91.2
2011	7,721,918	7,721,918	7,789,023	64.7	31.4	96.1

The company's admitted assets have increased 41.2%, from \$16,435,128 at year-end 2011 to \$23,214,271 at year-end 2016. During the same period, surplus as regards policyholders has increased 16.8% from \$11,016,851 to \$12,862,781.

The company has consistently written business in the same five states since 2012 (Iowa, Pennsylvania, Wisconsin, Michigan, and Louisiana), with Iowa comprising a significant majority of direct premiums written. Gross and net premiums written have doubled since 2011 due to a significant increase in direct premiums written in the state of Iowa, as a result of increased market penetration.

Historically, the company's loss and loss adjustment expense ratio has averaged between approximately 60% and 68%. The company has reported a net income in each of the

last five years. The company anticipates future increases in its volume of premium written due to its territorial expansion.

**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, 2016, is accepted.

## **VII. SUMMARY OF EXAMINATION RESULTS**

### **Compliance with Prior Examination Report Recommendations**

There were no specific comments or recommendations in the previous examination report.

### **Summary of Current Examination Results**

This section contains comments and elaboration on those areas where adverse findings were noted or where unusual situations existed. Comment on the remaining areas of the company's operations is contained in the examination work papers.

### **Conflict of Interest Statements**

The examination could find no evidence that conflict of interest statements were ever completed for 2014 and 2015. It is recommended that the company take steps to ensure that conflict of interest statements are completed annually by all directors, officers, and key employees, in compliance with the Directive of the Commissioner of Insurance.

### **Investment Committee Charter and Investment Policy**

The investment committee charter requires that the members of the investment committee meet quarterly to perform their duties and responsibilities. It was noted during the examination that the company could provide no evidence that the investment committee met in person, or via telephone, two or more times in 2014, 2015, and 2016. It is recommended that the company's board-appointed investment committee meet in person, or via telephone, at least quarterly to perform its duties and responsibilities in accordance with the investment committee charter.

### **Cash – Escheat Policy**

The examination noted that the company currently does not have a formal written escheat policy addressing how the company intends to comply with Chapter 177, Wis. Stat. (Uniform Unclaimed Property Act), and does not currently transfer stale-dated checks (i.e., over 6 months old) to an escheat liability account. The examination noted checks totaling \$20,801.71 dating back to July 1, 2011, on the December 31, 2016, outstanding check list. It is recommended that the company develop a formal written Escheat Policy. The Policy should address: (1) The company's procedures relating to stale-date checks (sufficient to ensure compliance with the requirements of Chapter 177, Wis. Stat.); and (2) The establishment and maintenance of an escheat liability account (to hold stale-dated checks outstanding for over one year). It is further recommended that the Escheat Policy be presented to the board of directors for approval.

**Compliance with Bylaws:**

According to Sec. 2.01 of the company's bylaws, the shareholder is to meet annually to appoint and approve board members. The company was unable to provide evidence that the annual meeting was held in 2014 or 2015. It is recommended that the company's shareholder meet annually for the purpose of electing directors and transacting other business, as required by Sec. 2.01 of the company's bylaws, and that evidence of this meeting be recorded in the annual meeting minutes.

**Executive Compensation:**

According to s. 611.63 (4) Wis. Stat., each Wisconsin-domiciled insurer shall file a Report on Executive Compensation as a supplement to the insurer's annual statement. The filing shall report on the annual compensation of each director, and officer, as defined by s. 611.12 (3), Wis. Stat., and the four most highly paid members of executive management. The examiner's review revealed that the company did not include the employer's portion of paid total health insurance benefits and retirement benefits. The company should include all remuneration paid or accrued for services on behalf of each reportable employee in the Report on Executive Compensation. It is recommended that the company report all remuneration paid to or accrued on behalf of executives, which includes retirement benefits and insurance premiums, for those executives whose remuneration meets the requirements to be reported to the Commissioner in accordance with s. 611.63 (4), Wis. Stat.

**Disaster Recovery/Business Continuity Plan:**

The IT Examiner reviewed SUIC's business continuity and disaster recovery plans. The examination found no evidence that the company's business continuity or disaster recovery plans have been tested. At a minimum the results of these tests should document that the company has asked staff to walk through processes that would be required in the event of various scenarios, including missing key employees. This could be a tabletop exercise or something more extensive. It would also be useful for the company to show that it is able to restore insurance and financial systems in a reasonable amount of time, if only in a test environment. It

is recommended that the company regularly test its disaster recovery and business continuity plans.

### VIII. CONCLUSION

SU Insurance Company was incorporated under its present name pursuant to the laws of the state of Wisconsin on March 7, 2005, and commenced business on April 27, 2005. The company was formed to underwrite the equipment maintenance insurance program of its affiliate, Specialty Underwriters LLC.

Policyholders' surplus has increased from \$11,558,878 as of year-end 2012, when policyholders' surplus was last verified by examination, to \$12,862,781 as of year-end 2016, as determined by this examination. This represents an increase of 11.3% during the period under examination. The following schedule summarizes the cumulative increases and decreases to surplus from December 31, 2012, the date as of which the company was last examined, to December 31, 2016:

Policyholders' surplus, December 31, 2011	\$11,016,851
Surplus paid in	5,000,000
Change in surplus notes	(5,000,000)
Capital transferred to surplus	3,000,000
Surplus transferred from capital	(3,000,000)
Net income	1,554,377
Change in nonadmitted assets	27,825
Change in net unrealized capital gain or (loss)	35,390
Change in net deferred income tax	228,338
Policyholders' Surplus, December 31, 2016	<u>\$12,862,781</u>

The current examination made six recommendations. The examination determined that there were no material misstatements, and did not make any adjustments or reclassifications of reported account balances. The examination determined that, as of December 31, 2016, the company had admitted assets of \$23,214,271, liabilities of \$10,351,490, and policyholders' surplus of \$12,862,781.



## IX. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 20 - Conflict of Interest Statements—It is recommended that the company take steps to ensure that conflict of interest statements are completed annually by all directors, officers, and key employees, in compliance with the Directive of the Commissioner of Insurance.
2. Page 20 - Investment Committee Charter and Investment Policy—It is recommended that the company's board-appointed investment committee meet in person, or via telephone, at least quarterly to perform its duties and responsibilities in accordance with the investment committee charter.
3. Page 20 - Cash –Escheat Policy— It is recommended that the company develop a formal written Escheat Policy. The Policy should address: (1) The company's procedures relating to stale-date checks (sufficient to ensure compliance with the requirements of Chapter 177, Wis. Stat.); and (2) The establishment and maintenance of an escheat liability account (to hold stale-dated checks outstanding for over one year). It is further recommended that the Escheat Policy be presented to the board of directors for approval.
4. Page 21 - Compliance with Bylaws—It is recommended that the company's shareholder meet annually for the purpose of electing directors and transacting other business, as required by Sec. 2.01 of the company's bylaws, and that evidence of this meeting be recorded in the annual meeting minutes.
5. Page 21 - Executive Compensation—It is recommended that the company report all remuneration paid to or accrued on behalf of executives, which includes retirement benefits and insurance premiums, for those executives whose remuneration meets the requirements to be reported to the Commissioner in accordance with s. 611.63 (4),Wis. Stat.
6. Page 21 - Disaster recovery/Business Continuity Plan—It is recommended that the company regularly test its disaster recovery and business continuity plans.

## 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:

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Respectfully submitted,

Yi Xu  
Examiner-in-Charge