

Report of the Examination of  
State Auto Insurance Company of Wisconsin  
Columbus, Ohio  
As of December 31, 2018

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# State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

**Tony Evers, Governor**  
**Mark V. Afable, Commissioner**

**Wisconsin.gov**

February 4, 2020

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

Commissioner:

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

STATE AUTO INSURANCE COMPANY OF WISCONSIN  
Columbus, Ohio

and this report is respectfully submitted.

## I. INTRODUCTION

The previous examination of State Auto Insurance Company of Wisconsin (the company, or State Auto Wisconsin) was conducted in 2014 and 2015, as of December 31, 2013. The current examination covered the intervening period ending December 31, 2018, and included a review of such 2019 transactions as deemed necessary to complete the examination.

The examination of the company was conducted concurrently with the examination of State Automobile Mutual Insurance Company. The Ohio Department of Insurance acted in the capacity as the lead state for the coordinated examination. Work performed by the Ohio Department of Insurance 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.

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

## II. HISTORY AND PLAN OF OPERATION

The company was organized in 1974 as a dual-charter life/health and property/casualty insurance company under the name of Midwestern National Insurance Corporation. In November 1992, the name of the company was changed to Midwest Security Insurance Company, and in July 2002, the name of the company was changed to State Auto Insurance Company of Wisconsin, the name currently used by the company.

Effective December 31, 1986, the company established an assignment and assumption reinsurance agreement whereby all of the company's life and annuity business was transferred to Midwest Security Life Insurance Company, a former affiliate. Concurrent with the transfer of the company's life and annuity risks, the company's certificate of authority was amended to limit its authorized lines of business to the following, as defined in s. Ins 6.75 (2), Wis. Adm. Code:

- (a) Fire, Inland Marine and Other Property Insurance
- (c) Disability Insurance
- (d) Liability and Incidental Medical Expense (other than Automobile Insurance)
- (e) Automobile and Aircraft Insurance
- (n) Miscellaneous

Commencing January 1, 1993, the company's accident and health block of business was renewed to Midwest Security Life Insurance Company under a separate assumption reinsurance agreement.

Ownership and control of the company was acquired by State Automobile Mutual Insurance Company (State Auto Mutual) on January 1, 1997. Effective January 2, 1998, the company became a 0.0% participant in the State Auto Mutual reinsurance pooling agreement (discussed further in the "Reinsurance" section of this report).

State Auto Wisconsin has no employees. All management and administrative services are provided to the company through affiliated agreements. Further discussion of the company's holding company system, its significant affiliated companies, and its affiliated agreements is included in the section of this report captioned "Affiliated Companies."

The company is licensed to write in Illinois, Indiana, Nebraska, and Wisconsin, but actively writes only in Wisconsin. The company's products are marketed by independent agents and include (in order of decreasing direct premiums written): homeowner's multiple peril, private passenger auto liability, auto physical damage, other liability – occurrence, inland marine, allied lines, fire and earthquake.

The following table is a summary of the net insurance premiums written by the company in 2018. The growth of the company is discussed in the "Financial Data" section of this report.

<b>Line of Business</b>	<b>Direct Premium</b>	<b>Reinsurance Assumed</b>	<b>Reinsurance Ceded</b>	<b>Net Premium</b>
Fire	\$ 85,451	\$ 2,669	\$ 88,120	\$0
Allied lines	138,501	979	139,480	0
Homeowner's multiple peril	5,246,808	6,066	5,252,874	0
Inland marine	184,334	0	184,334	0
Earthquake	1,381	0	1,381	0
Other liability – occurrence	344,273	0	344,273	0
Private passenger auto liability	4,215,258	0	4,215,258	0
Auto physical damage	<u>3,804,761</u>	<u>0</u>	<u>3,804,761</u>	<u>0</u>
Total All Lines	<u>\$14,020,767</u>	<u>\$9,714</u>	<u>\$14,030,481</u>	<u>\$0</u>

### III. MANAGEMENT AND CONTROL

#### Board of Directors

The board of directors consists of eight members. Two or three directors are elected annually to serve a three-year term. Officers are elected at the board's annual meeting. The board members currently receive an annual board retainer in the amount of \$100,000 and long-term deferred compensation in the amount of \$70,000 for serving on the board.

Currently, the board of directors consists of the following persons:

<b>Name and Residence</b>	<b>Principal Occupation</b>	<b>Term Expires</b>
Robert E. Baker Mableton, Georgia	Executive Vice President DHR International	2022
Michael J. Fiorile Columbus, Ohio	Chairman, President, and Chief Executive Officer Dispatch Printing Company	2020
James E. Kunk Dublin, Ohio	Retired Central Region President Huntington National Bank	2021
Michael E. LaRocco Columbus, Ohio	Chairman, President, and Chief Executive Officer State Auto Financial Corporation	2021
Marsha P. Ryan Naples, Florida	Retired	2020
Dwight E. Smith Dublin, Ohio	President and Chief Executive Officer Sophisticated Systems, Inc.	2020
Roger P. Sugarman Columbus, Ohio	Attorney Kegler, Brown, Hill & Ritter Co., LPA	2022
Michelle M. Lantow Lake Oswego, Oregon	Self-Employed	2022

#### Officers of the Company

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

<b>Name</b>	<b>Office</b>	<b>2018 Compensation*</b>
Michael LaRocco	Chairman, President, and Chief Executive Officer	\$1,679,301
Steven English	Senior Vice President and Chief Financial Officer	1,462,243
Kim Garland	Senior Vice President	753,612
Paul Stachura	Senior Vice President	717,568
Gregory Tacchetti	Senior Vice President	576,789
Matthew Mrozek	Vice President and Chief Actuarial Officer	430,373
Jason Berkey	Senior Vice President	417,504

<b>Name</b>	<b>Office</b>	<b>2018 Compensation*</b>
Melissa A. Centers	Secretary and General Counsel	394,568
Mathew R. Pollak	Treasurer and Chief Accounting Officer	363,721
Scott Jones	Vice President and Chief Investment Officer	354,762

\*As reported in the most recent Executed Compensation Report filed with the Office of the Commissioner of Insurance. The above compensation covered all the services rendered by the individuals to the holding group.

### **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:

#### **Audit Committee**

Marsha Ryan, Chair  
James Kunk  
Roger Sugarman

#### **Independent Committee**

James Kunk, Chair  
Marsha Ryan  
Dwight Smith  
Roger Sugarman  
Edwin Simcox

#### **Investment and Finance Committee**

James Kunk, Chair  
Michael LaRocco  
Edwin Simcox

#### **Nominating & Governance Committee**

Michael Fiorile, Chair  
Marsha Ryan  
Edwin Simcox  
Dwight Smith  
Roger Sugarman

#### **Risk Committee**

Dwight Smith, Chair  
Marsha Ryan  
Roger Sugarman  
Michael Fiorile  
Edward Simcox

#### **Compensation Committee**

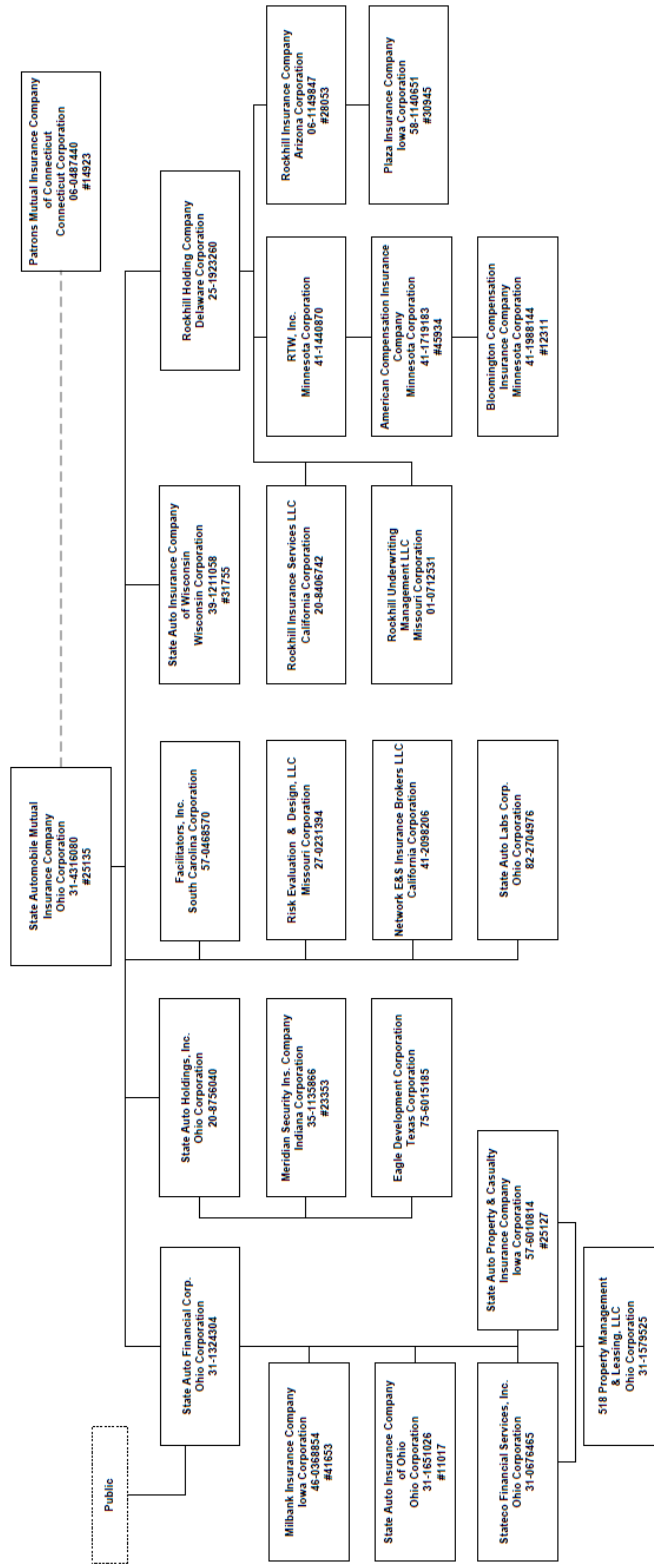
Robert Baker, Chair  
James Kunk  
Dwight Smith  
Michael Fiorile



#### **IV. AFFILIATED COMPANIES**

State Auto Insurance Company of Wisconsin 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, 2018



### **State Automobile Mutual Insurance Company**

State Automobile Mutual Insurance Company (State Auto Mutual) was incorporated under the laws of the state of Ohio on August 15, 1921, and commenced business on September 1, 1921. State Auto Mutual writes a diverse range of commercial and personal lines coverage in 36 of the 51 jurisdictions in which it is licensed. State Auto Mutual is the lead company in the State Auto Pool, and currently has a 34.5% net participation in the pool. As of December 31, 2018, the audited financial statements of State Auto Mutual reported assets of \$2,295,424,837, liabilities of \$1,529,494,468, and capital and surplus of \$765,930,369. Operations for 2018 produced net income of \$12,287,614.

### **Affiliates and Subsidiaries of State Auto Mutual**

#### **Patrons Mutual Insurance Company of Connecticut**

Patrons Mutual Insurance Company of Connecticut (Patrons Mutual) was incorporated under the laws of Connecticut on March 1, 1887, and commenced business on April 6, 1887. Patrons Mutual entered into an affiliation agreement with State Auto Mutual in September 2007. In December of 2007, State Auto Mutual assumed operational authority over the Patrons Group, which also included Patrons Mutual. As of January 1, 2008, Patrons Mutual was added to the affiliated pooling agreement and currently has a 0.5% participation in the State Auto Pool. As of December 31, 2018, the audited financial statements of Patrons Mutual reported assets of \$48,322,039, liabilities of \$26,061,436, and capital and surplus of \$22,260,603. Operations for 2018 produced net income of \$787,741.

#### **Rockhill Insurance Company**

Rockhill Insurance Company (RIC) was incorporated in Arizona on September 4, 1985, and commenced business on October 22, 1985. RIC is wholly owned by Rockhill Holding Company, which was acquired by State Auto Mutual in 2009, and is a 0.0% participant in the State Auto Pool. As of December 31, 2018, the audited financial statements of RIC reported assets of \$94,216,228, liabilities of \$53,979,625, and capital and surplus of \$40,236,603. Operations for 2018 produced net income of \$918,045.

### **Plaza Insurance Company**

Plaza Insurance Company (Plaza) was incorporated in Georgia under the name Integon Mortgage Guaranty Corporation on July 20, 1972, and commenced business on December 26, 1972. In 1991, Plaza redomesticated from Georgia to Missouri and changed its name to INGC Nation Insurance Company. After a series of ownership and name changes, the name currently used was adopted on July 2, 2007. Plaza is an indirect wholly-owned subsidiary of Rockhill Holding Company and is a 0.0% participant in the State Auto Pool. As of December 31, 2018, the audited financial statements of Plaza Insurance Company reported assets of \$83,348,394, liabilities of \$59,324,814, and capital and surplus of \$24,023,580. Operations for 2018 produced net income of \$493,046.

### **American Compensation Insurance Company**

American Compensation Insurance Company (American Compensation) was incorporated in Minnesota on December 6, 1991, and commenced business on April 17, 1992. It is an indirect wholly-owned subsidiary of Rockhill Holding Company and is a 0.0% participant in the State Auto Pool. As of December 31, 2018, the audited financial statements of American Compensation reported assets of \$77,025,378, liabilities of \$21,533,332, and capital and surplus of \$55,492,046. Operations for 2018 produced net income of \$794,917.

### **Bloomington Compensation Insurance Company**

Bloomington Compensation Insurance Company (Bloomington Compensation) was incorporated in Minnesota on December 12, 2000, and commenced business on October 1, 2005. It is an indirect wholly-owned subsidiary of Rockhill Holding Company and is a 0.0% participant in the State Auto Pool. As of December 31, 2018, the audited financial statements of Bloomington Compensation reported assets of \$15,823,365, liabilities of \$1,571,132, and capital and surplus of \$14,252,233. Operations for 2018 produced net income of \$172,676.

### **Meridian Security Insurance Company**

Meridian Security Insurance Company (Meridian Security) was incorporated July 27, 1967, under the laws of Indiana and commenced business on October 2, 1967. Meridian Security is wholly owned by Meridian Insurance Group, Inc., and is a 0.0% participant in the State Auto Pool. As of December 31, 2018, the audited financial statements of Meridian Security reported assets of \$155,274,635, liabilities of \$80,696,636, and capital and surplus of \$74,577,999. Operations for 2018 produced net income of \$1,501,308.

### **State Auto Financial Corporation**

State Auto Financial Corporation (STFC), which was incorporated in 1990, is a regional property and casualty insurance holding company located in Columbus, Ohio. STFC and its subsidiaries are affiliated with State Auto Mutual, which owns approximately 60% of STFC's common shares outstanding.

### **Subsidiaries of State Auto Financial Corporation**

#### **Milbank Insurance Company**

Milbank Insurance Company (Milbank) was incorporated under the laws of South Dakota on October 21, 1982, commenced business on January 18, 1983, and was redomesticated to Iowa on December 9, 2011. Milbank is a 14% participant in the State Auto Pool. As of December 31, 2018, the audited financial statements of Milbank reported assets of \$612,301,216, liabilities of \$454,320,425, and capital and surplus of \$157,981,791. Operations for 2018 produced net income of \$15,639,251.

#### **State Auto Property & Casualty Insurance Company**

State Auto Property & Casualty Insurance Company (State Auto P&C) was incorporated under the laws of South Carolina on January 25, 1950, and commenced business on April 1, 1950. State Auto P&C redomesticated to Iowa on November 14, 2006. State Auto P&C has a 51% participation in the State Auto Pool. As of December 31, 2018, the audited financial statements of State Auto P&C reported assets of \$2,448,250,432, liabilities of \$1,752,096,046, and capital and surplus of \$696,154,386. Operations for 2018 produced net income of \$49,002,773.

## **State Auto Insurance Company of Ohio**

State Auto Insurance Company of Ohio (State Auto Ohio) was incorporated under the laws of Ohio on May 17, 1999, and commenced business on January 1, 2000. State Auto Ohio has a 0.0% participation in the State Auto Pool. As of December 31, 2018, the audited financial statements of State Auto Ohio reported assets of \$27,325,189, liabilities of \$9,529,004, and capital and surplus of \$17,796,185. Operations for 2018 produced net income of \$425,628.

### **Agreements with Affiliates**

#### **Management Agreement**

Effective January 1, 2000, the company participates in a management agreement (the Midwest Management Agreement) with State Auto Mutual and State Auto P&C. Pursuant to the management agreement, State Auto P&C is responsible for performing all organizational, operational, and management functions for State Auto Wisconsin, and State Auto Mutual provides the company with certain facilities, office equipment, and other tangible property. In exchange for these services, the company pays a fee equal to 0.75% of its direct premium written.

#### **Investment Management Agreement**

The company participates in an Investment Management Agreement with Stateco Financial Services, Inc. (Stateco), a wholly-owned subsidiary of State Auto Financial Corporation. Pursuant to the agreement, Stateco provides investment management services to the company for a fee based on the fair value of the investment portfolio. The annual fee shall be paid quarterly. For fixed instruments, including bonds (taxable and tax-free), invested cash, and preferred stock, the annual fee shall be 20 basis points, or 0.002 times the average asset value; common stock portfolios shall be 50 basis points, or 0.005 times the average asset value. In the event the total return on any common stock portfolio exceeds, for a particular quarter, the total return for the S&P 500 for the same quarter, Stateco Financial Services, Inc., shall be paid an annual bonus of 10 basis points, or 0.001 times the portion of the average asset value which exceeds the asset value of the same portfolio based on the actual total performance of the S&P 500 for the quarter in question.

**Federal Income Tax Allocation Agreement**

The company is party to a consolidated federal income tax agreement with State Auto Mutual and certain other State Auto Mutual subsidiaries. Under this agreement, State Auto Mutual files a consolidated federal income tax return for itself and participating subsidiaries, and the allocation of taxes is based upon the taxes that each participating company would have paid if separate tax returns had been filed, with credit for any net operating losses or other items utilized in the consolidated tax return.

## V. REINSURANCE

The company's reinsurance portfolio and strategy are 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.

### **Affiliated Pooling Agreement**

The companies in the State Auto Pool substantially pool all their net written business, net of any business ceded to and assumed from nonaffiliates, under an Intercompany Pooling Agreement. All companies in the State Auto Pool cede 100% of their net premiums, losses, loss adjustment expenses, and underwriting and administrative expenses to State Auto Mutual Insurance Company.

State Auto Mutual is responsible for collecting premiums and paying losses, loss expenses, and other underwriting expenses of the pooled companies. Unpaid balances for these items are recorded through intercompany balances and are settled quarterly. At year's end, catastrophe (CAT) reinsurance recoverable on paid losses are allocated to each company based on an allocation that results in each company properly stating its portion of outstanding CAT billings. For non-CAT reinsurance recoverable on losses, the underlying policy (and so the company) carries the outstanding recoverable. State Auto Mutual administers all aspects of the pooled business, including the placement of unaffiliated reinsurance. The net pooled business is then distributed according to the participations listed below. Income and expenses related to investment operations and federal income taxes are not included in the pooling.

The insurers in the State Auto Pool are party to the same reinsurance agreements as every other member of the State Auto Pool. Cessions to reinsurers are arranged through a reinsurance intermediary. Additional terms of significant reinsurance contracts are outlined below.

The reinsurance participants and their respective participation percentages are as follows:

<b>Company</b>	<b>State of Domicile</b>	<b>Pooling %</b>
State Automobile Mutual Insurance Company	Ohio	34.5%
State Auto Property & Casualty Insurance Company	Iowa	51.0%
Milbank Insurance Company	Iowa	14.0%
Patrons Mutual Insurance Company of Connecticut	Connecticut	0.5%
Plaza Insurance Company	Iowa	0.0%



<b>Company</b>	<b>State of Domicile</b>	<b>Pooling %</b>
Rockhill Insurance Company	Arizona	0.0%
Meridian Security Insurance Company	Indiana	0.0%
American Compensation Insurance Company	Minnesota	0.0%
Bloomington Compensation Insurance Company	Minnesota	0.0%
State Auto Insurance Company of Ohio	Ohio	0.0%
State Auto Insurance Company of Wisconsin	Wisconsin	0.0%

Lines covered: All

Items included: Losses, loss adjustment expenses, unearned premium, and all underwriting and administrative expenses (not including liabilities related to investments, federal income taxes, or stockholder dividends)

Termination: Until canceled by agreement of the parties, or with 12 months' notice by any party

### Nonaffiliated Ceding Contracts

1. Type: Casualty Excess of Loss

Reinsurers:

	<b>1<sup>st</sup> Layer</b>	<b>2<sup>nd</sup> Layer</b>	<b>3<sup>rd</sup> Layer</b>
Aspen Insurance UK Limited	0.0%	5.0%	5.0%
AXIS Reinsurance Company	10.0	0.0	0.0
Hannover Rück SE	10.0	12.5	12.5
Partner Reinsurance Company of the US	10.0	0.0	0.0
QBE Reinsurance Corporation	10.0	7.5	7.5
Underwriters at Lloyds, London	0.0	33.5	32.5
Scor Reinsurance Company	10.0	0.0	0.0
Transatlantic Reinsurance Company	10.0	10.0	10.0
XL Reinsurance America, Inc	0.0	7.5	7.5
Munich Reinsurance America, Inc.	10.0	10.0	10.0
Arch Reinsurance Company	0.0	4.0	5.0
RenaissanceRe Europe AG (US Branch)	10.0	0.0	0.0
TOA Reinsurance Company of America	10.0	0.0	0.0
Markel Global Re	10.0	0.0	0.0
Aspen Insurance UK Limited	<u>0.0</u>	<u>10.0</u>	<u>10.0</u>
Total	100.0%	100.0%	100.0%

Scope: Policies classified by the company as Third Party Liability, including Personal Injury, Uninsured Motorists, Underinsured Motorists, coverage under statutory no-fault provisions, Worker's Compensation, Employers' Liability, and Umbrella coverage

Retention: First Layer – Section A: \$3,000,000 each and every loss occurrence

First Layer – Section B: (Applies to Umbrella only) \$5,000,000 each and every loss occurrence

Second Layer – \$10,000,000 each and every loss occurrence

	Third Layer – \$20,000,000 each and every loss occurrence																														
Coverage:	First Layer – Section A: \$7,000,000 each and every loss occurrence in excess of the company’s retention																														
	First Layer – Section B: 100% Quota Share of \$10,000,000 excess of \$5,000,000 each and every loss occurrence																														
	Second Layer – \$10,000,000 each and every loss occurrence in excess of the company’s retention, subject to an aggregate limit of \$30,000,000																														
	Third Layer – \$10,000,000 each and every loss occurrence in excess of the company’s retention, subject to an aggregate limit of \$20,000,000																														
Commissions:	First Layer – Section B: 31% of gross net premium income																														
Effective date:	July 1, 2018																														
Termination:	June 30, 2019																														
2. Type:	Worker’s Compensation Catastrophe Excess of Loss																														
Reinsurers:																															
	<table border="0" style="margin-left: auto; margin-right: auto;"> <thead> <tr> <th></th> <th style="text-align: center;">1<sup>st</sup> Layer</th> <th style="text-align: center;">2<sup>nd</sup> Layer</th> </tr> </thead> <tbody> <tr> <td>Partner Reinsurance Company</td> <td style="text-align: right;">10.0%</td> <td style="text-align: right;">10.0%</td> </tr> <tr> <td>Hannover Rück SE</td> <td style="text-align: right;">10.0</td> <td style="text-align: right;">10.0</td> </tr> <tr> <td>Underwriters at Lloyds, London</td> <td style="text-align: right;">32.5</td> <td style="text-align: right;">27.5</td> </tr> <tr> <td>Munich Reinsurance America, Inc.</td> <td style="text-align: right;">15.0</td> <td style="text-align: right;">15.0</td> </tr> <tr> <td>Arch Reinsurance Company</td> <td style="text-align: right;">10.0</td> <td style="text-align: right;">10.0</td> </tr> <tr> <td>Safety National Casualty Corporation</td> <td style="text-align: right;">10.0</td> <td style="text-align: right;">10.0</td> </tr> <tr> <td>Endurance Specialty Insurance Limited</td> <td style="text-align: right;">5.0</td> <td style="text-align: right;">5.0</td> </tr> <tr> <td>Markel Global Re</td> <td style="text-align: right;"><u>7.5</u></td> <td style="text-align: right;"><u>12.5</u></td> </tr> <tr> <td>Total</td> <td style="text-align: right;">100.0%</td> <td style="text-align: right;">100.0%</td> </tr> </tbody> </table>		1 <sup>st</sup> Layer	2 <sup>nd</sup> Layer	Partner Reinsurance Company	10.0%	10.0%	Hannover Rück SE	10.0	10.0	Underwriters at Lloyds, London	32.5	27.5	Munich Reinsurance America, Inc.	15.0	15.0	Arch Reinsurance Company	10.0	10.0	Safety National Casualty Corporation	10.0	10.0	Endurance Specialty Insurance Limited	5.0	5.0	Markel Global Re	<u>7.5</u>	<u>12.5</u>	Total	100.0%	100.0%
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Total	100.0%	100.0%																													
Scope:	Worker’s Compensation and Employers’ Liability																														
Retention:	First Layer – \$10,000,000 each loss occurrence																														
	Second Layer – \$20,000,000 each loss occurrence																														
Coverage:	First Layer – \$10,000,000 each loss occurrence in excess of the company’s retention, subject to an aggregate limit of \$20,000,000																														
	Second Layer – \$10,000,000 each loss occurrence in excess of the company’s retention, subject to an aggregate limit of \$20,000,000																														
Commissions:	None																														
Effective date:	July 1, 2018																														

Termination: June 30, 2019

3. Type: Excess Property Catastrophe

Reinsurers:

	<b>Percentage</b>
Allied World Assurance Company, Ltd.	2.00%
American Agriculture Insurance Company	1.00
Argo Re Ltd.	4.00
Aspen Bermuda Limited	2.00
AXIS Specialty Limited	3.75
Employers Mutual Casualty Company	1.00
Everest Reinsurance Company	5.00
General Reinsurance Corporation	1.50
Hannover Re (Bermuda), Ltd	5.00
Mapfre Re, Compañía De Reaseguros, S.A.	3.00
Odyssey Reinsurance Company	3.50
Partner Reinsurance Company Ltd.	1.00
QBE Reinsurance Corporation	2.50
Transatlantic Reinsurance Company	11.25
Validus Reinsurance, Ltd.	12.50
XL Bermuda Ltd.	4.00
Munich Reinsurance America, Inc.	7.50
MS Amlin AG Bermuda Branch	1.25
R+V Versicherung AG	4.25
Taiping Reinsurance Co. Ltd.	1.25
Underwriters at Lloyd's, London	14.00
SCOR Global P&C SE, Paris, Zurich Branch	<u>3.75</u>
Total	100.0%

Scope: Property business

Retention: First Layer – \$75,000,000 each loss occurrence

Coverage: First Layer – \$125,000,000 each loss occurrence in excess of the company's retention, subject to an aggregate limit of \$250,000,000

Commissions: None

Effective date: July 1, 2018

Termination: July 1, 2019

4. Type: Property Per Risk Excess of Loss

Reinsurers:

	<b>1<sup>st</sup> Layer</b>	<b>2<sup>nd</sup> Layer</b>
Allied World Reinsurance Company	5.0%	5.0%
American Agricultural Insurance Company	3.0	3.0
Argo Re Ltd.	5.0	5.0
Aspen Insurance UK Limited	2.5	2.5

	<b>1<sup>st</sup> Layer</b>	<b>2<sup>nd</sup> Layer</b>
Employers Mutual Casualty Company	5.0	5.0
Hannover Rück SE	10.0	10.0
Mapfre Re, Compañía De Reaseguros, S.A.	6.0	6.0
MS Amlin AG Bermuda Brand	3.0	4.0
Munich Reinsurance America, Inc.	10.0	10.0
Odyssey Reinsurance Company	2.5	5.0
Partner Reinsurance Co. of the U.S.	12.5	10.0
QBE Reinsurance Corporation	2.5	2.5
Taiping Reinsurance Co. Ltd.	8.0	4.0
Underwriters at Lloyd's, London	25.0	25.0
Validus Reinsurance, Ltd.	<u>0.0</u>	<u>3.0</u>
Total	100.0%	100.0%

Scope: Property business

Coverage:

	<b>1st Layer</b>	<b>2nd Layer</b>
Retention	\$ 4,000,000	\$10,000,000
Per Risk Limit	6,000,000	10,000,000
Aggregate Limit	18,000,000	20,000,000

Commissions: None

Effective date: July 1, 2018

Termination: July 1, 2019

## **VI. FINANCIAL DATA**

The following financial statements reflect the financial condition of the company as reported to the Commissioner of Insurance in the December 31, 2018, annual statement. Adjustments made as a result of the examination are noted at the end of this section in the area captioned "Reconciliation of Surplus per Examination." Also included in this section are schedules that reflect the growth of the company, NAIC Insurance Regulatory Information System (IRIS) ratio results for the period under examination, and the compulsory and security surplus calculation.

**State Auto Insurance Company of Wisconsin**  
**Assets**  
**As of December 31, 2018**

	<b>Assets</b>	<b>Nonadmitted Assets</b>	<b>Net Admitted Assets</b>
Bonds	\$12,560,803	\$	\$12,560,803
Cash, cash equivalents, and short-term investments	74,602		74,602
Investment income due and accrued	70,667		70,667
Premiums and considerations:			
Uncollected premiums and agents' balances in course of collection	67		67
Reinsurance:			
Amounts recoverable from reinsurers	2,115,315		2,115,315
Net deferred tax asset	9,869		9,869
Receivable from parent, subsidiaries, and affiliates	748,569		748,569
Write-ins for other than invested assets:			
Equities and deposits in pools and associations	<u>41,734</u>	-	<u>41,734</u>
Total Assets	<u>\$15,621,626</u>	<u>\$</u>	<u>\$15,621,626</u>

**State Auto Insurance Company of Wisconsin  
Liabilities, Surplus, and Other Funds  
As of December 31, 2018**

Reinsurance payable on paid loss and loss adjustment expenses		\$ 52
Current federal and foreign income taxes		25,743
Ceded reinsurance premiums payable (net of ceding commissions)		3,153,040
Payable to parent, subsidiaries, and affiliates		<u>29,834</u>
Total Liabilities		3,208,669
Common capital stock	\$ 2,080,000	
Gross paid in and contributed surplus		225,000
Unassigned funds (surplus)		<u>10,107,957</u>
Surplus as Regards Policyholders		<u>12,412,957</u>
Total Liabilities and Surplus		<u>\$15,621,626</u>

**State Auto Insurance Company of Wisconsin  
Summary of Operations  
For the Year 2018**

**Underwriting Income**

Deductions:		
Loss adjustment expenses incurred	\$ 40,004	
Other underwriting expenses incurred	<u>65,152</u>	
Total underwriting deductions		<u>\$105,156</u>
Net underwriting gain (loss)		(105,156)

**Investment Income**

Net investment income earned	<u>352,636</u>	
Net investment gain (loss)		<u>352,636</u>
Net income (loss) after dividends to policyholders but before federal and foreign income taxes		247,480
Federal and foreign income taxes incurred		<u>21,958</u>
Net Income		<u>\$225,522</u>



**State Auto Insurance Company of Wisconsin  
Cash Flow  
For the Year 2018**

Premiums collected net of reinsurance		\$(431,327)
Net investment income		<u>353,627</u>
Total		(77,700)
Benefit- and loss-related payments	\$ 86,499	
Commissions, expenses paid, and aggregate write-ins for deductions	105,156	
Federal and foreign income taxes paid (recovered)	<u>36,804</u>	
Total deductions		<u>228,459</u>
Net cash from operations		(306,159)
Proceeds from investments sold, matured, or repaid:		
Bonds	1,025,000	
Cost of investments acquired (long-term only):		
Bonds	<u>1,956,347</u>	
Net cash from investments		(931,347)
Cash from financing and miscellaneous sources:		
Other cash provided (applied)		<u>759,831</u>
<b>Reconciliation:</b>		
Net Change in Cash, Cash Equivalents, and Short-Term Investments		(477,675)
Cash, cash equivalents, and short-term investments:		
Beginning of year		<u>552,277</u>
End of Year		<u>\$ 74,602</u>

**State Auto Insurance Co of WI  
Compulsory and Security Surplus Calculation  
December 31, 2018**

Assets		\$ 15,621,626
Less liabilities		<u>3,208,669</u>
Adjusted surplus		12,412,957
Annual premium:		
Lines other than accident and health	\$0	
Factor	<u>20%</u>	
Compulsory surplus (subject to a minimum of \$2 million)		<u>2,000,000</u>
Compulsory Surplus Excess (Deficit)		<u>\$ 10,412,957</u>
Adjusted surplus (from above)		\$ 12,412,957
Security surplus (140% of compulsory surplus, factor reduced 1% for each \$33 million in premium written in excess of \$10 million, with a minimum factor of 110%)		<u>2,800,000</u>
Security Surplus Excess (Deficit)		<u>\$ 9,612,957</u>

**State Auto Insurance Company of Wisconsin  
Analysis of Surplus  
For the Five-Year Period Ending December 31, 2018**

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

	2018	2017	2016	2015	2014
Surplus, beginning of year	\$12,193,430	\$12,055,451	\$11,971,294	\$11,735,734	\$11,648,306
Net income	225,522	122,115	348,740	156,869	223,306
Change in net unrealized capital gains/losses			(216,037)	(3,176)	(19,185)
Change in net deferred income tax	(16,191)	(17,560)	(4,926)	102	(34,928)
Change in nonadmitted assets	10,196	33,424	(43,620)		
Change in provision for reinsurance				81,765	(81,765)
Surplus, End of Year	<u>\$12,412,957</u>	<u>\$12,193,430</u>	<u>\$12,055,451</u>	<u>\$11,971,294</u>	<u>\$11,735,734</u>

**State Auto Insurance Company of Wisconsin  
Insurance Regulatory Information System  
For the Five-Year Period Ending December 31, 2018**

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

Ratio	2018	2017	2016	2015	2014
#1 Gross Premium to Surplus	113%	149%	189%	189%	210%
#2 Net Premium to Surplus	0	0	0	0	0
#3 Change in Net Premiums Written	0	0	0	0	0
#4 Surplus Aid to Surplus	0	0	0	0	0
#5 Two-Year Overall Operating Ratio	0	0	0	0	0
#6 Investment Yield	2.9	2.1*	2.2*	2.4*	2.7*
#7 Gross Change in Surplus	2	1	1	2	1
#8 Change in Adjusted Surplus	2	1	1	2	1
#9 Liabilities to Liquid Assets	25	30	41	45	52
#10 Agents' Balances to Surplus	0	0	0	0	0
#11 One-Year Reserve Development to Surplus	0	0	0	0	0
#12 Two-Year Reserve Development to Surplus	0	0	0	0	0
#13 Estimated Current Reserve Deficiency to Surplus	0	0	0	0	0

\* Indicates an unusual value.

The exceptional results for Ratio No. 6, "Investment Yield," from 2014 to 2018 can be attributed to the low interest rate environment of recent years, and the company's conservative investment strategy.

#### Growth of State Auto Insurance CO of Wisconsin

Year	Admitted Assets	Liabilities	Surplus as Regards Policyholders	Net Income
2018	\$15,621,626	\$3,208,669	\$12,412,957	\$225,522
2017	15,854,314	3,660,884	12,193,430	122,115
2016	17,098,733	5,043,282	12,055,451	348,740
2015	17,457,693	5,486,399	11,971,294	156,869
2014	17,908,417	6,172,683	11,735,734	223,306
2013	18,395,683	6,747,377	11,648,306	201,043

Year	Gross Premium Written	Net Premium Written	Premium Earned	Loss and LAE Ratio	Expense Ratio	Combined Ratio
2018	\$14,030,481	\$0	\$0	0.0%	0.0%	0.0%
2017	18,189,480	0	0	0.0	0.0	0.0
2016	22,733,995	0	0	0.0	0.0	0.0
2015	22,604,061	0	0	0.0	0.0	0.0
2014	24,640,717	0	0	0.0	0.0	0.0
2013	28,009,250	0	0	0.0	0.0	0.0

During the period under examination, the company experienced year over year declines in gross premiums written, with corresponding declines in assets and liabilities. The explanation provided for the decline was the launch of the new personal lines products on the Connect platform, beginning in the fourth quarter of 2016. The Connect products are new products which were separate and distinct from products on the legacy underwriting platforms. These products launched with the underwriting companies that did not have legacy products within those specific states. New personal lines product rollouts continued through early 2018 on the Connect platform, and beginning in late 2018, the group began the rollout of new commercial products on the Connect platform.

Ultimately, the plan is for all personal and commercial lines products to be on the Connect platform. As that time approaches, it is likely that the Connect products will be available in specific states, which should eventually be reflected in the direct premiums written for State

Auto Wisconsin. The premium volume for the company is expected to continue to decline before increasing after the issuance of the Connect products.

**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, 2018, is accepted.

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

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

There were no specific comments and 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.

### **Report of Executive Compensation**

During the reconciliation of the Report of Executive Compensation, it was determined that the company did not include all gross direct and indirect remuneration in the Report of Executive Compensation in accordance with s. 611.63 (4) Wis. Stat.

The report requires that "compensation reported shall consist of any and all gross direct and indirect remuneration paid and accrued during the report year for the benefit of an individual director, officer, or manager, and shall include wages, stock grants, gains from the exercise of stock options, and all other forms of personal compensation (including employer-paid health, life and any other premiums)." It is recommended that the company report compensation in accordance with the instructions on the Report of Executive Compensation per s. 611.63 (4) Wis. Stat.

## VIII. CONCLUSION

State Auto Insurance Company of Wisconsin was organized in 1974. Ownership and control were acquired by State Automobile Mutual Insurance Company effective January 1, 1997. The company is licensed in Illinois, Indiana, Nebraska, and Wisconsin but writes business exclusively in Wisconsin.

During the period under examination, the company experienced year over year declines in gross premiums written, with corresponding declines in assets and liabilities. The explanation provided for the decline was the launch of the new personal lines products on the Connect platform, beginning in the fourth quarter of 2016. The Connect products are new products which were separate and distinct from products on the legacy underwriting platforms. These products launched with the underwriting companies that did not have legacy products within those specific states. New personal lines product rollouts continued through early 2018 on the Connect platform, and beginning in late 2018, the group began the rollout of new commercial products on the Connect platform.

Ultimately, the plan is for all personal and commercial lines products to be on the Connect platform. As that time approaches, it is likely that the Connect products will be available in specific states, which should eventually be reflected in the direct premiums written for State Auto Wisconsin. The premium volume for the company is expected to continue to decline before increasing after the issuance of the Connect products.

There were no adjustments to policyholders' surplus or reclassifications to the balance sheet as a result of this examination. There was one recommendation concerning completion of the Report of Executive Compensation, a state-specific annual supplement applicable to Wisconsin domestic insurers.



## **IX. SUMMARY OF COMMENTS AND RECOMMENDATIONS**

1. Page 29 - Report of Executive Compensation—It is recommended that the company report compensation in accordance with the instructions on the Report of Executive Compensation per s. 611.63 (4) Wis. Stat.

**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:

<b>Name</b>	<b>Title</b>
Sheng Vang	Insurance Financial Examiner
Eleanor Lu, CISA	IT Specialist
Karl Albert, CFE	Workpaper Specialist
Jerry DeArmond, CFE	Reserve Specialist

Respectfully submitted,



Josh Daggett  
Examiner-in-Charge