

Report
of the
Examination of
Trade Lake Mutual Insurance Company
Frederic, Wisconsin
As of December 31, 2012

TABLE OF CONTENTS

	Page
I. INTRODUCTION	1
II. REINSURANCE.....	8
III. FINANCIAL DATA	11
IV. SUMMARY OF EXAMINATION RESULTS.....	15
V. CONCLUSION.....	26
VI. SUMMARY OF COMMENTS AND RECOMMENDATIONS	27
VII. ACKNOWLEDGMENT.....	28



State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

Scott Walker, Governor
Theodore K. Nickel, Commissioner

Wisconsin.gov

June 28, 2013

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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, an examination has been performed as of
December 31, 2012, of the affairs and financial condition of:

TRADE LAKE MUTUAL INSURANCE COMPANY
Frederic, Wisconsin

and the following report thereon is respectfully submitted:

I. INTRODUCTION

The previous examination of Trade Lake Mutual Insurance Company (the company) was made in 2008 as of December 31, 2007. The current examination covered the intervening time period ending December 31, 2012, and included a review of such subsequent transactions deemed essential to complete this examination.

The "Summary of Examination Results" contains elaboration on all areas of the company's operations. 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.

In addition to auditing, the public accounting firm performs non-auditing services for the company, including accounting for income taxes and compilation of the annual statement. On December 13, 2010, an exemption was granted by the Commissioner, pursuant to s. Ins 50.08 (5), Wis. Adm. Code, permitting the independent auditor to perform this non-audit work for the company.

The company was organized as a town mutual insurance company on March 11, 1874, under the provisions of the then existing Wisconsin Statutes. The original name of the company was the Trade Lake Mutual Fire Insurance Company. Subsequent amendments to the company's articles and bylaws changed the company's name to that presently used.

During the period under examination, there were no amendments to the articles of incorporation and no amendments to the bylaws.

The company is currently licensed to write property, including windstorm and hail, and nonproperty insurance. The company is currently licensed to write business in the following counties:

Barron	Polk
Burnett	Sawyer
Douglas	Washburn

A review was made of the policy and application forms currently used by the company. The company issues approved policies, with or without endorsements, for terms of three months, six months, or one year, with premiums payable on the advance premium basis. Policy fees charged policyholders are retained by the company.

Business of the company is acquired through 11 agents, 3 of whom are directors of the company. Agents are presently compensated for their services as follows:

Type of Policy	Compensation
All policies (new or renewal)	15%

Two of the directors, Charles Johnson and Susan Hughes, are agents and also have authority to adjust losses up to \$2,000. Losses in excess of this amount are adjusted by a

commercial adjusting firm. Agent adjusters receive \$20.00 per hour for each loss adjusted plus \$0.565 per mile (the IRS approved rate) for travel allowance.

Policyholders may participate in the management and control of the company by attending and voting at all annual or special meetings of the members. No member may vote by proxy. The annual meeting of the company for the election of directors and special meetings of the company are held in accordance with its articles of incorporation.

Board of Directors

The board of directors consists of nine members divided into three classes. One class is elected at each annual meeting for a term of three years. Vacancies on the board may be filled by the directors for the interim to the next annual meeting when a director shall be chosen for the unexpired term.

The current board of directors consists of the following policyholders of the company:

Name	Principal Occupation	Residence	Expiry
Wayne Gustafson	Retired Banker	Frederic, WI	2014
Richard Harder*	Insurance Agent Modular Home Sales	Spooner, WI	2015
Susan Hughes*	Church Administrative Assistant	Frederic, WI	2016
Charles Johnson*	Retired Loan Officer, Agent	Grantsburg, WI	2014
Deanne Mullner	RN/EMT Manager Ambulance Service	Frederic, WI	2015
Shelly Roland	Teacher	Siren, WI	2015
JoAnn Treichel	School Administrative Assistant	Webster, WI	2016
Carolyn Wedin	Retired Professor	Frederic, WI	2014
Gregg Westigard	Journalist	Frederic, WI	2016

Directors who are also agents are identified with an asterisk.

Members of the board currently receive \$85.00 (\$150.00 for meetings away from the office) for each meeting attended and \$0.565 per mile (the IRS approved rate) for travel expenses.

Section 612.13 (1m), Wis. Stat., requires:

- (1) If a town mutual has fewer than nine directors, no more than one director may be an employee or representative of the town mutual; and
- (2) Employees and representatives of a town mutual may not constitute a majority of its board.

The company is in compliance with these requirements.

Officers

Officers are elected by the board of directors from among its members and hold office for one year or until their successors are duly elected and qualified. Officers serving at the present time are as follows:

Name	Office	2012 Compensation
Charles Johnson	President	\$30,094
Wayne Gustafson	Vice President	2,105
Gregg Westigard	Secretary/Treasurer	2,755
Ginger Baker	Manager	43,715

Reported compensation is the total compensation paid by the insurer for the year and includes salary, commissions, director fees and mileage as applicable.

Committees of the Board

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

Executive/Adjusting Committee

Charles Johnson, Chair
Wayne Gustafson
Gregg Westigard

Rate & Finance Committee

Susan Hughes, Chair
Charles Johnson
Deanne Mullner

Personnel Committee

Gregg Westigard, Chair
Charles Johnson
Shelly Roland

Commissions Committee

Wayne Gustafson, Chair
JoAnn Treichel
Carolyn Wedin

Business Planning Committee

Charles Johnson, Chair
Wayne Gustafson
Gregg Westigard
Jim Kuntz*
Ginger Baker*

Agent Advisory Committee

Rick Harder, Chair
Charles Johnson
Kristin Kosloski*

* Ginger Baker, Jim Kuntz and Kristin Kosloski are not members of the board but are used in agent advising and business planning for their familiarity with agents or the needs of the business. The Agent Advisory Committee is designed to offer advice to the board related to agents. The Business Planning Committee gathers information for the board related to market area and medium-term plans. The company has an agent and the company manager on this committee, but they do not vote.

Growth of Company

The growth of the company since the previous examination as compiled from its filed annual statements was as follows:

Year	Net Premiums Earned	Policies In Force	Net Income	Admitted Assets	Policyholders' Surplus
2012	\$556,735	1,316	\$(107,827)	\$1,582,753	\$1,111,653
2011	584,944	1,316	(222,238)	1,779,869	1,334,907
2010	621,875	1,358	112,901	1,988,510	1,554,454
2009	651,921	1,424	(43,182)	1,868,774	1,400,628
2008	682,626	1,498	88,013	1,957,354	1,518,506
2007	709,406	1,583	131,971	1,946,442	1,401,018

The ratios of gross and net premiums written to surplus as regards policyholders since the previous examination were as follows:

Year	Gross Premiums Written	Net Premiums Written	Policyholders' Surplus	Writings Ratios Net	Ratios Gross
2012	\$ 941,150	\$563,443	\$1,111,653	50.7%	84.7%
2011	925,233	576,200	1,334,907	43.2	69.3
2010	967,117	617,998	1,554,454	39.8	62.2
2009	975,124	635,915	1,400,628	45.4	69.6
2008	1,007,797	671,415	1,518,506	44.2	66.4
2007	1,037,571	705,325	1,401,018	50.3	74.1

For the same period, the company's operating ratios were as follows:

Year	Net Losses and LAE Incurred	Other Underwriting Expenses Incurred	Net Premiums Earned	Loss Ratio	Expense Ratio	Composite Ratio
2012	\$381,005	\$376,014	\$556,735	68.4%	66.7%	35.2%
2011	496,896	366,554	584,944	84.9	63.6	48.6
2010	220,036	363,894	621,875	35.4	58.9	94.3
2009	393,996	358,551	651,921	60.4	56.4	16.8
2008	307,240	367,075	682,626	45.0	54.7	99.7
2007	275,518	393,702	709,406	38.8	55.8	94.6

The company has reported underwriting and net losses in three of the five years of the period under examination. Significant losses sustained by the company in the most recent two years were due to an unusually high number of claims from several wind/hailstorm events in the area and a few severe fire losses. The highest underwriting loss occurred in 2011, a year in which the insurance industry as a whole had significantly high losses. The company's underwriting expense ratio has gradually increased from 55.8% in 2007 to 66.7% in 2012. This increase was partially due to the decrease in net premiums written during the examination period. Gross premium written has decreased 9% during the examination period. At the same time net premium written decreased 20% reflecting an increased cost of reinsurance coverage. The company's surplus has been decreasing by 20% each year since 2010. This decrease can be attributed to the significant losses that occurred in the two most recent years. Overall, surplus has decreased 21%, to \$1,111,653 during the period under examination. To reverse a downward surplus trend, the company has implemented several strategies designed to improve underwriting

results, including tightening its underwriting standards, requiring a minimum deductible of \$500, and implementing an inflation guard endorsement on all policies.

The company's admitted assets have decreased each year since 2010. Overall, admitted assets have decreased 18.7% since 2007 from \$1,946,442 at December 31, 2007, to \$1,582,753 at December 31, 2012. The company's liabilities have also decreased by 13.6% since 2007 from \$545,424 at December 31, 2007, to \$471,100 at December 2012.

II. REINSURANCE

The examiners' review of the company's reinsurance portfolio revealed there is currently one ceding treaty. The treaty contained a proper insolvency clause and complied with s. Ins 13.09 (3), Wis. Adm. Code, concerning maximum wind loss. Company retentions of risk complied with s. Ins 13.06, Wis. Adm. Code.

Reinsurer:	Wisconsin Reinsurance Corporation (WRC)
Effective date:	January 1, 2013, continuous
Termination provisions:	Either party may terminate this contract as of any subsequent January 1 by giving to the other party at least 90 days' advance notice in writing. In the event of termination, the reinsurer shall not be liable for losses occurring on or after the effective date of termination.

The coverages provided under this treaty are summarized as follows:

- | | |
|----------------------|--|
| Type of contract: | Class A – Casualty Excess of Loss Reinsurance |
| Lines reinsured: | All casualty or liability business written by the company |
| Company's retention: | \$10,000 in respect to each and every loss occurrence |
| Coverage: | 100% of each and every loss occurring on the business covered by this contract, including loss adjustment expenses, subject to maximum policy limits of \$1,000,000 per occurrence, \$1,000,000 split limits, \$25,000 for medical payments, per person, \$25,000 per accident |
| Reinsurance premium: | 37.50% of casualty premium written for each and every policy issued. Annual deposit premium of \$50,250 with a minimum premium of 75% of the annual deposit premium. |
| Ceding commission: | None |
- | | |
|------------------------------|--|
| Type of contract: | Class B First Surplus Reinsurance |
| Lines reinsured: | All property business written by the company |
| Company's retention: | \$350,000 per ceded risk or at least 50% on a pro rata basis per ceded risk when the company's net retention is \$350,000 or less in respect to a risk |
| Coverage: | Up to \$800,000 on a pro rata basis when the company's net retention is \$350,000 or more in respect to a risk. When the company's net retention is \$350,000 or less in respect to a risk, the company may cede on a pro rata basis up to 50% of such risk. |
| Annual aggregate deductible: | Company retains the first 10% of losses and loss adjusting expenses otherwise recoverable under this contract |

Reinsurance premium:	Pro rata portion of all premiums, fees, and assessments charged by the company, corresponding to the amount of each risk ceded
Ceding commission:	15% direct commission and 15% commission on profit
3. Type of contract:	First Per Risk Excess of Loss Reinsurance
Lines reinsured:	All property business written by the company
Company's retention:	\$50,000 per occurrence No annual aggregate deductible
Coverage:	100% of any loss, including loss adjustment expense, in excess of \$50,000, subject to a limit of liability to the reinsurer of \$80,000
Reinsurance premium:	Based on experience over the past four years with load factor of 125% Minimum rate: 7% of current net premiums written Maximum rate: 17.50% of current net premiums written Current rate: 17.50% Premium deposit: \$128,975 Minimum premium is 75% of deposit
4. Type of contract:	Second Per Risk Excess of Loss Reinsurance
Lines reinsured:	All property business written by the company
Company's retention:	\$130,000
Coverage:	100% of any loss, including loss adjustment expense, in excess of \$130,000, subject to a limit of liability to the reinsurer of \$220,000
Reinsurance premium:	5.25% of the company's current net premiums written in respect to the business covered Premium deposit: \$38,692 Minimum premium is 75% of deposit
5. Type of contract:	First Aggregate Excess of Loss Reinsurance
Lines reinsured:	All business written by the company
Company's retention:	60% of net written premium (estimated at \$492,450)
Coverage:	100% of the amount by which the aggregate of the company's losses, including loss adjustment expenses exceed the retention with a limit of 60% of net premium written (losses from 60% to 120% of net premium written)

Reinsurance premium:	Based on experience over the past eight years with load factor of 125% Minimum rate: 7.45% of the current net written premiums Maximum rate: 12% of the current net written premiums Current rate: 11.19% Premium deposit: \$91,842 Minimum premium is 75% of deposit
6. Type of contract:	Second Aggregate Excess of Loss Reinsurance
Lines reinsured:	All business written by the company
Company's retention:	120% of net written premium
Coverage:	100% of the amount by which the aggregate of the company's losses, including loss adjustment expenses, exceed the retention
Reinsurance premium:	Current rate: 3.5% Premium deposit: \$28,726 Minimum premium is 75% of deposit

III. FINANCIAL DATA

The following financial statements reflect the financial condition of the company as reported to the Commissioner of Insurance in the December 31, 2012, annual statement. No adjustments have been made as a result of the examination.

Trade Lake Mutual Insurance Company
Statement of Assets and Liabilities
As of December 31, 2012

Assets	Ledger	Nonledger	Not Admitted	Net Admitted
Cash on hand	\$ 100	\$ 0	\$ 0	\$ 100
Cash in checking	20,335	0	0	20,335
Cash deposited at interest	84,199	0	0	84,199
Bonds	939,437	0	0	939,437
Stocks and mutual fund investments	466,194	0	0	466,194
Real estate	37,491	0	0	37,491
Premiums, agents' balances and installments:				
In course of collection	259	0	0	259
Investment income accrued	0	11,146	0	11,146
Reinsurance recoverable on paid losses and LAE	20,996	0	0	20,996
Other expense-related assets:				
Reinsurance commission receivable	2,596	0	0	2,596
Furniture and fixtures	<u>1,149</u>	<u>0</u>	<u>1,149</u>	<u>0</u>
Totals	<u>\$1,572,756</u>	<u>\$11,146</u>	<u>\$1,149</u>	<u>\$1,582,753</u>

Liabilities and Surplus

Net unpaid losses	\$ 37,086
Unpaid loss adjustment expenses	11,500
Commissions payable	10,413
Fire department dues payable	45
Federal income taxes payable	1,880
Unearned premiums	314,063
Reinsurance payable	53,024
Amounts withheld for the account of others	2,485
Payroll taxes payable (employer's portion)	1,247
Other liabilities:	
Expense-related:	
Accounts payable	3,232
Accrued property taxes	1,613
Nonexpense-related:	
Premiums received in advance	<u>34,512</u>
Total liabilities	471,100
Policyholders' surplus	<u>1,111,653</u>
Total Liabilities and Surplus	<u>\$1,582,753</u>

Trade Lake Mutual Insurance Company
Statement of Operations
For the Year 2012

Net premiums and assessments earned		\$ 556,735
Deduct:		
Net losses incurred	\$327,541	
Net loss adjustment expenses incurred	53,464	
Net other underwriting expenses incurred	<u>376,014</u>	
Total losses and expenses incurred		<u>757,019</u>
Net underwriting gain (loss)		(200,284)
Net investment income:		
Net investment income earned	(3,407)	
Net realized capital gains (losses)	<u>56,495</u>	
Total investment gain (loss)		53,088
Other income (expense):		
All other		<u>45,649</u>
Net income (loss) before federal income taxes		(101,547)
Federal income taxes incurred		<u>6,280</u>
Net Income (Loss)		<u><u>\$(107,827)</u></u>

Trade Lake Mutual Insurance Company
Reconciliation and Analysis of Surplus as Regards Policyholders
For the Five-Year Period Ending December 31, 2012

The following schedule is a reconciliation of surplus as regards policyholders during the period under examination as reported by the company in its filed annual statements:

	2012	2011	2010	2009	2008
Surplus, beginning of year	\$1,334,907	\$1,554,454	\$1,400,628	\$1,518,506	\$1,401,018
Net income	(107,827)	(222,238)	112,901	(43,182)	88,013
Net unrealized capital gain or (loss)	(117,167)	967	39,165	(76,929)	36,117
Change in nonadmitted assets	<u>1,740</u>	<u>1,724</u>	<u>1,760</u>	<u>2,233</u>	<u>(6,642)</u>
Surplus, End of Year	<u>\$1,111,653</u>	<u>\$1,334,907</u>	<u>\$1,554,454</u>	<u>\$1,400,628</u>	<u>\$1,518,506</u>

Reconciliation of Policyholders' Surplus

The examination resulted in no adjustments to policyholders' surplus. The amount reported by the company as of December 31, 2012, is accepted.

IV. SUMMARY OF EXAMINATION RESULTS

Compliance with Prior Examination Report Recommendations

Comments and recommendations contained in the last examination report and the action taken on them by the company are as follows:

1. Electronic Data Processing Equipment—It is recommended that the company depreciate its computer equipment over a useful life of three years in accordance with the Instructions for Town Mutuals Filing the OCI Town Mutual Annual Statement.

Action—Compliance.

2. Premiums Received in Advance—It is recommended that the company accurately report Advance Premium for the Annual Statement.

Action—Compliance.

Current Examination Results

Corporate Records

The minutes of the annual meetings of policyholders and meetings of the board of directors and committees thereof were reviewed for the period under examination and also for the subsequent period.

Biographical data relating to company officers and directors have been reported in accordance with the provisions of s. Ins 6.52, Wis. Adm. Code.

The company has executed formal written agreements with its agents. The contracts include language indicating the agent will represent the company's interests "in good faith."

Conflict of Interest

In accordance with a directive of the Commissioner of Insurance, each company is required to establish a procedure for the disclosure to its board of directors of any material interest or affiliation on the part of its officers, directors, or key employees which conflicts or is likely to conflict with the official duties of such person. A part of this procedure is the annual completion of a conflict of interest questionnaire by the appropriate persons. The company has adopted such a procedure for disclosing potential conflicts of interest. Conflict of interest questionnaires were reviewed for the period under examination with apparent conflicts being noted.

Fidelity Bond and Other Insurance

The company is afforded coverage under the terms of the following bonds or contracts and has complied with s. Ins 13.05 (6), Wis. Adm. Code, which sets forth the minimum requirements for fidelity bond coverage:

Type of Coverage	Coverage Limits
Fidelity bond	\$ 150,000
Worker's compensation:	
Employee injury	Statutory
Employee liability:	
Each accident	100,000
Each employee	100,000
Policy limit	500,000
Business and property	
Liability	1,000,000
Property	110,000
Personal property	60,000
Agents and brokers professional liability	1,000,000
Directors and officers liability	2,000,000

Underwriting

The company has a written underwriting guide. The guide covers all lines of business that the company is presently writing.

The company has a formal inspection procedure for both new and renewal business. A sampling of new applications and renewal business is inspected by an adjusting company who is independent of the risk under consideration and review.

Claims Adjusting

The company has an adjusting committee consisting of at least three directors as required by s. 612.13 (4), Wis. Stat. The function of this committee is to adjust or supervise the adjustment of losses.

Accounts and Records

The examiners' review of the company's records indicated that the company is in compliance with s. Ins 13.05, Wis. Adm. Code, which sets forth the minimum standards for the handling of cash and recording of cash transactions by town mutual insurance companies. The examiners noted the following:

1. A proper policy register is maintained.
2. A proper cash receipts journal is maintained.
3. A proper cash disbursements journal is maintained.
4. A proper general journal is maintained.
5. A proper general ledger is maintained.

An extensive review was made of income and disbursement items. Cash receipts were traced from source records and the proper recording and eventual deposit thereof

ascertained. Negotiated checks issued during the period under examination were reviewed, test checked for proper endorsement, and traced to cash records. The verification of assets and determination of liabilities were made as of December 31, 2012.

The company is audited annually by an outside public accounting firm.

EDP Environment

Company personnel were interviewed with respect to the company's electronic data processing environment. Access to the computers is limited to people authorized to use the computers by security login.

Company personnel back up the computers with daily incremental backups and weekly full backups and the backed-up data is kept off-site.

The company does not have physical manuals documenting the use of its software and outlining the steps to complete specific tasks for all tasks but has a mix of manuals, online help and flowcharts. The documented information assists in the continuity of operations by providing instructions for seldom-used applications or when staff turnover occurs. The examination determined that the level of documentation contained in this documentation was reasonable.

Business Continuity Plan

A business continuity plan identifies steps to be performed by a company in the event of business interruptions including, but not limited to, the inability to access its computer, the loss of information on its computer, the loss of a key employee, or the destruction of its office building. The company has developed a business continuity plan. The company's business continuity plan appears to be adequate.

Invested Assets

Section 610.23, Wis. Stat., requires insurers to hold all investments and deposits of its funds in its own name except that:

- (1) Securities kept under a custodial agreement or trust arrangement with a bank or banking and trust company may be issued in the name of a nominee of the bank or banking and trust company; and
- (2) Any insurer may acquire and hold securities in bearer form.

For securities not held under a custodial agreement or trust arrangement with a bank or banking and trust company, s. Ins 13.05 (4), Wis. Adm. Code, requires that:

Non-negotiable evidences of company investments such as registered bonds, certificates of deposits, notes, etc., shall be maintained in a safe or vault with adequate safety controls or in a safety deposit box in a bank. Negotiable evidences of company investments shall be maintained in a safety deposit box in a bank. Access to a company safety deposit box containing negotiable securities shall require the presence and signature of at least 2 officers, directors or employees of the company.

The company is in compliance with these requirements.

Investment Rule Compliance

The investment rule for town mutual insurers allows a company to invest in common stocks, common stock mutual funds, and other higher risk investments (referred to as "Type 2") provided that the town mutual has a sufficient amount of lower risk investments (referred to as "Type 1"). A town mutual may invest in Type 2 securities only if it already has sufficient Type 1 investments. Type 1 investments must equal or exceed the greater of items 1, 2, or 3.

1. Liabilities plus \$300,000	\$ 771,100
2. Liabilities plus 33% of gross premiums written	781,680
3. Liabilities plus 50% of net premiums written	752,822
4. Amount required (greater of 1, 2, or 3)	781,680
5. Amount of Type 1 investments as of 12/31/2012	<u>1,131,403</u>
6. Excess or (deficiency)	<u>\$ 349,723</u>

The company has sufficient Type 1 investments.

ASSETS

Cash and Invested Cash **\$104,634**

The above asset is comprised of the following types of cash items:

Cash in company's office	\$ 100
Cash deposited in banks—checking accounts	20,335
Cash deposited in banks at interest	<u>84,199</u>
 Total	 <u>\$104,634</u>

Cash in company's office at year-end represents the company's petty cash fund. A physical count was not made by the examiners because it was immaterial.

Cash deposited in banks subject to the company's check and withdrawal consists of one account maintained in one bank. Verification of checking account balances was made by obtaining confirmations which the independent public accounting firm had obtained directly from the depositor and reconciling the amounts shown thereon to company records.

Cash deposited in banks represents the aggregate of two deposits in two depositories. Deposits were verified by the independent public accounting firm in direct correspondence with the respective depositories. Interest received during the year 2012 totaled \$1,191 and was verified to company cash records. Rates of interest earned on cash deposits were 1.10% and 5.20%. Accrued interest on cash deposits totaled \$749 at year-end.

Book Value of Bonds **\$939,437**

The above asset consists of the aggregate book value of bonds held by the company as of December 31, 2012. Bonds owned by the company are located in a custodial trust account.

Bonds were not physically inspected by the examiners. Bond purchases and sales for the period under examination were checked to brokers' invoices and advices. The company's investment in bonds was in conformance with Wisconsin Statutes and the rules of the Commissioner of Insurance as regards investments made by town mutual insurers.

Interest received during 2012 on bonds amounted to \$48,244 and was traced to cash receipts records. Accrued interest of \$10,397 at December 31, 2012, was checked and allowed as a nonledger asset.

Stocks and Mutual Fund Investments**\$466,194**

The above asset consists of the aggregate market value of stocks and mutual funds held by the company as of December 31, 2012. Stocks owned by the company are located in a safety deposit box in the company's bank in Frederic.

Stock certificates were physically examined by the examiners. Money market mutual fund purchases and sales for the period under examination were checked to brokers' invoices and advices. The company's investment in stocks and mutual funds was in conformance with Wisconsin Statutes and the rules of the Commissioner of Insurance as regards investments made by town mutual insurers.

Dividends received during 2012 on stocks and mutual funds amounted to \$134 and were traced to cash receipts records.

Book Value of Real Estate**\$37,491**

The above amount represents the company's investment in real estate, net of depreciation, as of December 31, 2012. The company's real estate holdings consisted of the company's headquarters.

The required documents supporting the validity of this asset were reviewed and were in order. Adequate hazard insurance was carried on the real estate and contents as noted under the caption "Fidelity Bond and Other Insurance." The company's investment in real estate and related items was in conformance with the Wisconsin Statutes and the rules of the Commissioner of Insurance as regards investments made by town mutual insurers. Real estate depreciation is calculated using the straight line method.

Premiums, Agents' Balances in Course of Collection**\$259**

This asset represents the amounts due from agents or policyholders which are not in excess of 90 days past due at year-end. A review of detailed premium records analyzed by the CPA during their audit verified the accuracy of this asset.

Investment Income Accrued **\$11,146**

Interest due and accrued on the various assets of the company at December 31, 2012, consists of the following:

Cash at Interest	\$ 749
Bonds	<u>10,397</u>
Total	<u>\$11,146</u>

Reinsurance Recoverable on Paid Losses and LAE **\$20,996**

The above asset represents recoveries due to the company from reinsurance on losses and loss adjusting expenses which were paid on or prior to December 31, 2012. A review of year-end accounting transactions with the reinsurer verified the above asset.

Reinsurance Commission Receivable **\$2,596**

The above asset represents the amount of reinsurance commissions that the company expected to receive as of December 31, 2012, under its contract with Wisconsin Reinsurance for first surplus reinsurance. A review of the terms of the reinsurance agreement and year-end accounting transactions with the reinsurer verified the above asset.

LIABILITIES AND SURPLUS

Net Unpaid Losses **\$37,086**

This liability represents losses incurred on or prior to December 31, 2012, that remained unpaid as of that date. The examiners reviewed the reasonableness of this liability by totaling actual loss payments made subsequent to December 31, 2012, with incurred dates in 2012 and prior years. To the actual paid loss figure was added an estimated amount for 2012 and prior losses remaining unpaid at the time of the examination. The examiners' development of unpaid losses is compared with the amount estimated by the company in the following schedule.

	Company Estimate	Examiners' Development	Difference
Incurred but unpaid losses	\$192,990	\$194,435	\$ (1,445)
Less: Reinsurance recoverable on unpaid losses	<u>155,904</u>	<u>166,117</u>	<u>(10,213)</u>
Net Unpaid Losses	<u>\$ 37,086</u>	<u>\$ 28,318</u>	<u>\$ 8,768</u>

The above difference of \$8,768 was not considered material for purposes of this examination.

The examiners' review of claim files included open claims, paid claims, claims closed without payment, and claims that were denied during the examination period. The review indicated that claims are investigated and evaluated properly and that payments are made promptly and in accordance with policy provisions upon the submission of a proper proof of loss. In addition, the review of claims handling procedures and files revealed the following:

1. A proper loss register is maintained.
2. Claim files contained sufficient investigatory data and documentation to verify settlement payments or reserve estimates.
3. Proofs of loss were properly signed.

Unpaid Loss Adjustment Expenses **\$11,500**

This liability represents the company's estimate of amounts necessary to settle losses which were incurred prior to December 31, 2012, but which remained unpaid as of year-end. The methodology used by the company in establishing this liability is experience-related estimating.

The examiners' analysis of expenses incurred in the current year related to the settlement of prior year losses, as well as estimates of amounts necessary to settle any prior losses remaining unpaid at the examination date, determined this liability to be adequately stated.

Commissions Payable **\$10,413**

This liability represents the commissions payable to agents as of December 31, 2012. The examiners reviewed the company's commission calculation and samples of subsequent commission payments and found the liability to be reasonably stated.

Fire Department Dues Payable **\$45**

This liability represents the fire department dues payable to the state of Wisconsin as of December 31, 2012.

The examiners reviewed the company's fire department dues calculation and found this liability to be correctly calculated. The actual amount paid was verified to the cash disbursement records.

Federal Income Taxes Payable **\$1,880**

This liability represents the balance payable at year-end for federal income taxes incurred prior to December 31, 2012.

The examiners reviewed the company's 2012 tax return and verified amounts paid to cash disbursement records to verify the accuracy of this liability.

Unearned Premiums **\$314,063**

This liability represents the reserve established for unearned premiums in compliance with s. Ins 13.08 (3), Wis. Adm. Code. This reserve was established using a daily pro rata methodology.

Reinsurance Payable **\$53,024**

This liability consists of amounts due to the company's reinsurer at December 31, 2012, relating to transactions which occurred on or prior to that date.

Amounts Withheld for the Account of Others **\$2,485**

This liability represents employee payroll deductions in the possession of the company at December 31, 2012. Supporting records and subsequent cash disbursements verified this item.

Payroll Taxes Payable **\$1,247**

This liability represents the company's portion of payroll taxes incurred prior to December 31, 2012, which had not yet been paid. Supporting records and subsequent cash disbursements verified this item.

Accounts Payable **\$3,232**

This liability represents the company's general account expenses incurred prior to December 31, 2012, which had not yet been paid. Supporting records and subsequent cash disbursements verified this item.

Accrued Property Taxes **\$1,613**

This liability represents the company's property taxes incurred prior to December 31, 2012, which had not yet been paid. Supporting records and subsequent cash disbursements verified this item.

Premiums Received in Advance **\$34,512**

This liability represents the total premiums received prior to year-end for policies with effective dates after December 31, 2012. The examiners reviewed 2012 premium and cash receipt records to verify the accuracy of this liability.

V. CONCLUSION

Trade Lake Mutual Insurance Company is a town mutual insurer covering a six-county area. The company has been in business for more than 139 years providing property and liability insurance to its policyholders.

In the five years since the prior examination, the number of policies in force decreased by 16.9% to 1,316 policies, and gross premium written decreased 9.3% to \$941,150. Net premium written and earned decreased 21.5% to \$563,443 and 20.1% to \$556,735, respectively. The company had an underwriting loss and net operating loss during three of the five years in the examination period. During 2010 and 2008 there were small underwriting income and net operating income. Surplus decreased 20.7%, from \$1,401,018 at year-end 2007 to \$1,111,653 at year-end 2012. To reverse a downward surplus trend and improve its underwriting performance, the company has implemented several strategies including tightening its underwriting standards, requiring a minimum deductible of \$500, and implementing an inflation guard endorsement on all policies. Though the company experienced significant losses, their financial position remains strong.

The current examination resulted in no recommendations and no adjustments to surplus.

VI. SUMMARY OF COMMENTS AND RECOMMENDATIONS

The examination resulted in no adverse comments or recommendations.

VII. ACKNOWLEDGMENT

The courteous cooperation extended to the examiners by the company's personnel is hereby acknowledged.

In addition to the undersigned, Derek Sliter of the Office of the Commissioner of Insurance, State of Wisconsin, participated in the examination.

Respectfully submitted,

Marisa Rodgers
Examiner-in-Charge