Report

of the

Examination of

Wisconsin American Mutual Insurance Company

Fond du Lac, Wisconsin

As of December 31, 2006

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State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

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January 17, 2008

Honorable Sean Dilweg
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:

WISCONSIN AMERICAN MUTUAL INSURANCE COMPANY
Fond du Lac, Wisconsin

and this report is respectfully submitted.

I. INTRODUCTION

The previous examination of Wisconsin American Mutual Insurance Company (hereinafter also the company or WAMIC) was conducted in 2004 as of December 31, 2002. The current examination covered the intervening period ending December 31, 2006, and included a review of such 2007 transactions as deemed necessary to complete the examination.

The examination consisted of a review of all major phases of the company's operations and included the following areas:

History
Management and Control
Corporate Records
Conflict of Interest
Fidelity Bonds and Other Insurance
Employees' Welfare and Pension Plans
Territory and Plan of Operations
Affiliated Companies
Growth of Company
Reinsurance
Financial Statements
Accounts and Records
Data Processing

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

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

II. HISTORY AND PLAN OF OPERATION

The company was organized in 1898 as Wisconsin Farmers Mutual Hail & Cyclone Insurance Company of Juneau, Wisconsin. On December 23, 1953, the company changed its name to Wisconsin Farmers Mutual Insurance Company. The company converted from an assessable mutual to a nonassessable mutual as of July 1, 1969. On March 9, 1993, the company's name was changed to Wisconsin American Mutual Insurance Company. The company moved its home office to Fond du Lac, Wisconsin, in November 1994.

Wisconsin American Mutual Insurance Company is currently licensed only in the state of Wisconsin.

The major products marketed by the company as of the examination date include commercial multiple peril, auto physical damage, private passenger auto liability, farmowners multiple peril, and homeowners multiple peril. Commercial business, which consists primarily of exposures to small and medium-sized restaurants and taverns, represents the company's current target market. The company has reduced its personal lines exposure in recent years. The major products are marketed by approximately 375 agents through 47 agencies.

The following table is a summary of the net insurance premiums written by the company in 2006. The growth of the company is discussed in the "Financial Data" section of this report.

Line of Business	Direct Premium	Reinsurance Assumed	Reinsurance Ceded	Net Premium
Fire	$ 21,173	$	$ 7,679	$ 13,494
Allied lines	10,769		3,003	7,766
Farmowners multiple peril	366,846		130,894	235,952
Homeowners multiple peril	285,652		100,702	184,950
Commercial multiple peril	4,057,887		1,376,326	2,681,561
Inland marine	67,815		24,648	43,167
Other liability - occurrence	162,673		144,234	18,439
Private passenger auto liability	1,030,497		296,918	733,579
Commercial auto liability	107,796		30,827	76,969
Auto physical damage	950,657	0	32,709	917,948
Total All Lines	$7,061,765	$0	$2,147,940	$4,913,825

III. MANAGEMENT AND CONTROL

Board of Directors

The board of directors consists of 10 members. Three or four directors are elected annually to serve a three-year term. Officers are elected at the board's annual meeting. The board members currently receive $3,255 per year for serving on the board plus $200 for each meeting attended. Board members are reimbursed $0.505 per mile for travel to board meetings.

Currently the board of directors consists of the following persons:

Name and Residence	Principal Occupation	Term Expires
Diane J. Burk Markesan, Wisconsin	Vice President and Secretary Wisconsin American Mutual Insurance Company	2010
James R. Goudy Fond du Lac, Wisconsin	Real Estate Broker	2010
James C. Herrick Fond du Lac, Wisconsin	Attorney and President Wisconsin American Mutual Insurance Company	2008
John W. Herrick Fond du Lac, Wisconsin	Attorney and Treasurer* Wisconsin American Mutual Insurance Company	2008
Donald J. Kaiser Mount Calvary, Wisconsin	Business	2010
William R. McIntosh Fond du Lac, Wisconsin	Owner of a title and abstract company	2009
William R. Peck III Green Bay, Wisconsin	Executive Vice President and Adjustor* Wisconsin American Mutual Insurance Company	2008
Linda Sabel Mount Calvary, Wisconsin	Manager and Legal Assistant Herrick Law Office	2009
Charles E. Sosinski Fond du Lac, Wisconsin	Detective Fond du Lac County Sheriff's Department	2009
Elmer C. Sosinski Fond du Lac, Wisconsin	Retired Auto Dealer	2008

* Mr. John W. Herrick and Mr. William R. Peck III work for the company on a part-time basis.

Officers of the Company

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

Name	Office	2006 Compensation
James C. Herrick	President	$182,661
William R. Peck III	Executive Vice President*	11,615
John W. Herrick	Treasurer*	10,292
Gene C. Schultz	Vice President – Assistant Secretary	68,525
Richard J. Haertel	Vice President – Commercial Underwriting	61,610
Thomas L. Kulke	Vice President – Farm Underwriting	64,202
Linda M. Sabel	Vice President – Oper. & Claims Litigation	4,055
Diane J. Burk	Vice President – Secretary	74,062

* Designates officers who spend approximately 20% of their time on company affairs.

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 Committee
James C. Herrick, Chairman*
William R. Peck III*
Gene C. Schultz
John W. Herrick*
Linda M. Sabel*

Loss Adjusting Expense Committee
Gene C. Schultz, Chairman
Charles E. Sosinski*
Diane J. Burk*

* Designates committee members who are also members of the board of directors.

IV. AFFILIATED COMPANIES

Wisconsin American Mutual Insurance Company is a single entity organized as a mutual insurance company and is not a member of a holding company system.

V. REINSURANCE

The company's reinsurance portfolio and strategy, including major reinsurance treaties in force at the time of the examination, are described below. The reinsurance contracts contained proper insolvency provisions. All treaties are nonaffiliated ceding contracts.

1.	Type:	Multi-line Excess of Loss
	Reinsurer:	Dorinco Reinsurance (30%) Hannover Ruckversicherung AG (15%) Odyssey America Reinsurance (25%) SCOR Reinsurance Company (30%)
	Scope:	Coverage A = All property (except auto damage and tornado) Coverage B = All casualty (except umbrella liability and occupational disease) Coverage C = Any one occurrence involving one or more classes of property and casualty coverage
	Retention:	Coverage A, B, C = $150,000 for all property or casualty losses
	Coverage:	<u>Layer 1</u> Coverage A = $350,000 excess of $150,000 each risk, subject to an occurrence limit of $1,050,000 Coverage B = $350,000 excess of $150,000 each occurrence Coverage C = $150,000 excess of $150,000 each occurrence <u>Layer 2</u> Coverage A = $500,000 excess of $500,000 each risk, subject to an occurrence limit of $1,000,000 Coverage B = $500,000 excess of $500,000 each occurrence Coverage C = N/A Combined Coverage Annual Aggregate Limit of $2,500,000 <u>Layer 3</u> Coverage A = $1,000,000 excess of $1,000,000 each risk subject to an occurrence limit of $2,000,000 Coverage B = $1,000,000 excess of $1,000,000 each occurrence Coverage C = N/A Combined Coverage Annual Aggregate Limit of $3,000,000
	Premium:	<u>Layer 1</u> Annual Deposit Premium of $1,237,294 payable in four equal quarterly installments of $309,323.50 to be adjusted at year-end to 18.43% of gross net premium written less ceding commission, subject to a minimum premium of $989,835

		Layer 2 Annual Deposit Premium of $407,636 payable in four equal quarterly installments of $101,909 to be adjusted at year-end to 6.07% of gross net premium written less ceding commission, subject to a minimum premium of $326,109
		Layer 3 Annual Deposit Premium of $302,130 payable in four equal quarterly installments of $75,532.50 to be adjusted at year-end to 4.50% of gross net premium written less ceding commission, subject to a minimum premium of $256,811
	Commissions:	30% of subject reinsurance premium
	Effective date:	January 1, 2007
	Termination:	Any January 1, by either party giving at least 90 days' prior notice. Reinsurer may terminate at any time by giving 90 days' notice if the company has been assigned an AM Best rating less than C++.
2.	Type:	Property Per Risk Excess of Loss
	Reinsurer:	Scor Reinsurance Company (30%) Underwriters at Lloyd's (70%)
	Scope:	Excess liability on property business
	Retention:	$2,000,000 per occurrence
	Coverage:	$3,000,000 excess of $2,000,000 per occurrence, subject to an aggregate limit of $6,000,000
	Premium:	1.99% of net earned premium or $72,650 in four equal quarterly installments of $18,162.50, whichever is greater
	Effective date:	January 1, 2007
	Termination:	January 1, 2008
3.	Type:	Commercial and Personal Umbrella Liability Quota Share
	Reinsurer:	Dorinco Reinsurance (30%) Hannover Ruckversicherung AG (15%) Odyssey America Reinsurance (25%) SCOR Reinsurance Company (30%)
	Scope:	All commercial and personal umbrella liability coverage written
	Retention:	5%, subject to a maximum of $150,000
	Coverage:	95% of $2,000,000 any one occurrence, subject to an annual aggregate limit of $6,000,000
	Premium:	Pro rated ceded net written premium less ceding commission payable in monthly deposits subject to no minimum premium

Commissions:	25% of subject reinsurance premium
Effective date:	January 1, 2007
Termination:	Any January 1, by either party giving at least 90 days' notice. Reinsurer may terminate at any time by giving 90 days' notice if the company has been assigned an AM Best rating less than C++.

4. Type: Property Catastrophe Excess of Loss

Reinsurer:

	Layer 1	Layer 2	Layer 3
Arch Reins. Co.	20.00%	20.00%	20.00%
Farm Bureau Mutual Ins.	N/A	3.00	4.00
Farmers Mutual Hail	4.00	4.00	4.00
Protective Ins. Co.	20.00	20.00	20.00
Underwriters at Lloyd's	40.07	41.60	39.50
Amlin Underwriting Ltd.	10.93	11.40	12.50

Scope: All property business written by the company

Retention:

Layer 1 = $325,000 plus 5% of the next $500,000

Layer 2 = $825,000

Layer 3 = $1,825,000

Coverage:

Layer 1
95% of $500,000 excess of $325,000 any one loss occurrence, subject to an annual limit of $1,000,000

Layer 2
$1,000,000 excess of $825,000 any one loss occurrence, subject to an annual limit of $2,000,000

Layer 3
$3,175,000 excess of $1,825,000 any one loss occurrence, subject to an annual limit of $6,350,000

Premium:

Layer 1
3.35% of net earned premium, subject to a minimum premium of $82,500 and deposit premium of $102,500 payable in four equal quarterly installments of $25,625

Layer 2
2.7% of net earned premium, subject to a minimum premium of $66,000 and deposit premium of $82,500 payable in four equal quarterly installments of $20,625

Layer 3
2.6% net earned premium, subject to a minimum premium of $63,500 and a deposit premium of $79,375 payable in four equal quarterly installments of $19,843.75

Effective date: January 1, 2007

Termination: January 1, 2008

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, 2006, annual statement. Also included in this section are schedules which 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. 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."

Wisconsin American Mutual Insurance Company
Assets
As of December 31, 2006

	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	$4,074,676	$	$4,074,676
Stocks:			
Common stocks	35,731		35,731
Real estate:			
Occupied by the company	736,915		736,915
Held for production of income			
Held for sale	51,084		51,084
Cash, cash equivalents, and short-term investments	696,564		696,564
Investment income due and accrued	43,816		43,816
Premiums and considerations:			
Uncollected premiums and agents' balances in course of collection	113,812		113,812
Deferred premiums, agents' balances, and installments booked but deferred and not yet due	261,395		261,395
Reinsurance:			
Amounts recoverable from reinsurers	56,948		56,948
Current federal and foreign income tax recoverable and interest thereon	7,901		
Net deferred tax asset	1,025,015	837,952	187,063
Electronic data processing equipment and software	31,703	18,726	12,977
Furniture and equipment, including health care delivery assets	8,194	8,194	
Write-ins for other than invested assets:			
Cash surrender value – key man policy	173,607		173,607
Notes receivable	697,245		697,245
Total Assets	$8,014,606	$864,872	$7,149,734

Wisconsin American Mutual Insurance Company
Liabilities, Surplus, and Other Funds
As of December 31, 2006

Losses		$1,786,931
Loss adjustment expenses		200,301
Commissions payable, contingent commissions, and other similar charges		144,121
Other expenses (excluding taxes, licenses, and fees)		45,726
Taxes, licenses, and fees (excluding federal and foreign income taxes)		93,106
Borrowed money and interest thereon		18,863
Unearned premiums		1,122,496
Advance premium		125,396
Ceded reinsurance premiums payable (net of ceding commissions)		(139,630)
Remittances and items not allocated		3,284
Write-ins for liabilities:		
Escheatable property		23,712
Miscellaneous liabilities		213
Total liabilities		3,424,519
Surplus notes	$ 500,000	
Unassigned funds (surplus)	3,225,215	
Surplus as regards policyholders		3,725,215
Total Liabilities and Surplus		$7,149,734

Wisconsin American Mutual Insurance Company
Summary of Operations
For the Year 2006

Underwriting Income		
Premiums earned		$4,831,379
Deductions:		
Losses incurred	$2,732,827	
Loss expenses incurred	757,491	
Other underwriting expenses incurred	1,625,246	
Total underwriting deductions		5,115,564
Net underwriting gain (loss)		(284,185)
Investment Income		
Net investment income earned	105,691	
Net realized capital gains	23,282	
Net investment gain		128,973
Other Income		
Net gain (loss) from agents' or premium balances charged off	(8,764)	
Finance and service charges not included in premiums	20,516	
Write-ins for miscellaneous income:		
Cash value – key man policy	107	
Gain on sale of other assets	50	
Miscellaneous income	9,729	
Total other income		21,638
Net Income (Loss)		$ (133,574)

Wisconsin American Mutual Insurance Company
Cash Flow
For the Year 2006

Premiums collected net of reinsurance			$4,942,014
Net investment income			119,552
Miscellaneous income			21,638
Total			5,083,204
Benefit- and loss-related payments		$2,814,926	
Commissions, expenses paid, and aggregate write-ins for deductions		2,452,045	
Total deductions			5,266,971
Net cash from operations			(183,767)
Proceeds from investments sold, matured, or repaid:			
Bonds	$1,268,125		
Stocks	703,219		
Total investment proceeds		1,971,344	
Cost of investments acquired (long-term only):			
Bonds	497,188		
Stocks	626,613		
Real estate	5,663		
Total investments acquired		1,129,464	
Net cash from investments			841,880
Cash from financing and miscellaneous sources:			
Surplus notes, capital notes		(400,000)	
Other cash provided (applied)		(25,196)	
Net cash from financing and miscellaneous sources			(425,196)
Reconciliation:			
Net change in cash, cash equivalents, and short-term investments			232,917
Cash, cash equivalents, and short-term investments:			
Beginning of year			463,647
End of Year			$ 696,564

Wisconsin American Mutual Insurance Company
Compulsory and Security Surplus Calculation
December 31, 2006

Assets		$7,149,734
Less liabilities		3,424,519
Adjusted surplus		3,725,215
Annual premium:		
Lines other than accident and health	$4,913,825	
Factor	20%	
Compulsory surplus (subject to a $2,000,000 minimum)		2,000,000
Compulsory Surplus Excess or (Deficit)		$1,725,215
Adjusted surplus (from above)		$3,725,215
Security surplus: (140% of compulsory surplus, factor reduced 1% for each $33 million in premium written in excess of $10 million, with a minimum of 110%)		2,800,000
Security Surplus Excess or (Deficit)		$ 925,215

Wisconsin American Mutual Insurance Company
Reconciliation and Analysis of Surplus
For the Four-Year Period Ending December 31, 2006

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

	2006	2005	2004	2003
Capital and surplus, beginning of year	$4,264,447	$4,082,947	$3,957,548	$4,181,872
Net income	(133,574)	319,566	274,969	1,204,094
Change in net unrealized capital gains/losses	5,396	(4,698)	30,280	27,286
Change in net deferred income tax	73,232	(103,577)	(73,059)	495,304
Change in nonadmitted assets	(84,286)	70,210	(6,792)	(488,953)
Change in surplus notes	(400,000)	(100,000)	(100,000)	(100,000)
Surplus adjustments:				
Paid in				(705,670)
Write-ins for gains and (losses) in surplus:				
Prior year audit adjustment				(656,385)
Capital and surplus, end of year	$3,725,215	$4,264,447	$4,082,947	$3,957,548

Wisconsin American Mutual Insurance Company
Insurance Regulatory Information System
For the Four-Year Period Ending December 31, 2006

The company's NAIC Insurance Regulatory Information System (IRIS) results for the period under examination are summarized below. Unusual IRIS results are denoted with asterisks and discussed below the table.

	Ratio	2006	2005	2004	2003
#1	Gross Premiums to Surplus	190	180	227	343
#2	Net Premiums To Surplus	132	111	139	213
#3	Change in Writings	4	-17	-32	-10
#4	Surplus Aid to Surplus	3	3	4	3
#5	Two Year Operating Ratio	99	98	100	109*
#6	Investment Yield	2*	2*	3*	3*
#7	Change in Surplus	-13*	4	-4	-6
#8	Liabilities to Liquid Assets	65	59	69	94
#9	Agents' Balances to Surplus	3	2	3	27
#10	One-Year Reserve Development	2	2	4	4
#11	Two-Year Reserve Development	15	11	11	33*
#12	Estimated Reserve Deficiency to Surplus	11	7	4	3

The "Two-Year Overall Operating Ratio" measures the company's profitability over the previous two-year period. WAMIC's ratio exceeded 100% in one of the four years under examination. The relatively high ratio of 109% in 2003 reflects weaker operating results associated with underwriting and net loss trends, surplus adjustments for loss reserve deficiencies and lower investment yields.

The "Investment Yield Ratio" provides information on the earnings of the company's investment portfolio compared to a long-term industry average. WAMIC's investment yields reflect lower than average returns associated with the generally declining interest rate environment.

The "Change in Surplus Ratio" reflects the change in the company's overall financial condition related primarily to payment of $400,000 in surplus notes and the net loss of $133,574 reported in 2006.

The "Two-Year Reserve Development to Surplus Ratio" provides a retrospective development of prior year loss reserve adequacy. WAMIC's ratio for 2003 reflects the adverse reserve deficiency trends associated with increased incurred loss ratios and inadequate reserves. WAMIC has taken appointed actuary and CPA recommendations to strengthen its loss reserves.

Growth of Wisconsin American Mutual Insurance Company

Year	Admitted Assets	Liabilities	Surplus As Regards Policyholders	Net Income
2006	$ 7,149,731	$3,424,519	$3,725,215	$ (133,574)
2005	7,782,187	3,517,740	4,264,447	319,566
2004	8,624,923	4,541,976	4,082,947	274,969
2003	11,836,089	7,878,541	3,957,548	1,204,094
2002	12,381,308	8,199,436	4,181,872	(1,487,257)

Year	Gross Premium Written	Net Premium Written	Premium Earned	Loss and LAE Ratio	Expense Ratio	Combined Ratio
2006	$ 7,061,765	$4,913,825	$4,831,379	72.2%	32.6%	104.8%
2005	7,663,129	4,742,762	4,982,130	65.9	32.6	98.5
2004	9,251,864	5,685,815	6,532,500	73.7	29.9	103.6
2003	13,564,682	8,420,028	8,929,953	64.9	36.5	101.4
2002	16,134,326	9,330,969	9,396,354	89.5	29.7	119.2

WAMIC's assets decreased by approximately $5.3 million or 42%, liabilities decreased by approximately $4.8 million or 58% and surplus decreased by approximately $500,000 or 11% since 2002. Gross premiums written and net premiums written decreased by approximately $9.1 million or 56% and $4.4 million or 47%, respectively. Net income has increased from a loss of approximately $1.5 million to a loss of approximately $133,000 since 2002; however, the company had net gains from 2003 though 2005. The combined ratio has decreased 14% to 105% during the examination period.

The decrease in admitted assets reflects a general investment portfolio reduction in bonds and stocks and real estate as a result of decreased premium income and expenditures to meet cash flow needs. The decrease in premiums written reflects the company's business strategy to reduce personal lines which have been unprofitable, along with the termination of unprofitable agency relationships and price increases.

The company showed net income and increasing surplus from 2003 through 2005 along with a positive combined ratio trend. In 2006, the company again had a net loss. This loss, combined with a surplus note payment of $400,000 in 2006, were the primary reasons for the decrease in surplus in 2006.

Reconciliation of Surplus per Examination

The following schedule is a reconciliation of surplus between that reported by the company and as determined by this examination:

Surplus December 31, 2006, per annual statement			$3,725,215
	Increase	**Decrease**	
Loss Reserves	$	$350,000	
Net increase or (decrease)			(350,000)
Surplus December 31, 2006, per examination			$3,375,215

VII. SUMMARY OF EXAMINATION RESULTS

Compliance with Prior Examination Report Recommendations

There were 14 specific comments and recommendations in the previous examination report. Comments and recommendations contained in the last examination report and actions taken by the company are as follows:

1. Money Market Account Classification—It is recommended that the company classify and report money market funds under Schedule D – Part 2 – Section 2 Common Stock or Schedule DA – Part 1 Short-term investments, in accordance with the guidance of the NAIC Purposes and Procedures Manual of the Securities Valuation Office.

   Action—Compliance.

2. Real Estate Held for Sale - Appraisals—It is recommended that the company obtain appraisals on its real estate held for sale such that the appraisals are no more than five years old, in accordance with SSAP 40, paragraph 12 of the NAIC Accounting Practices and Procedures Manual.

   Action—Compliance.

3. Occupied Real Estate Properties - Capitalization—It is recommended that the company ensure, in the future, only expenses which add to or prolong property life are capitalized, in accordance with SSAP 40, paragraph 14 of the NAIC Accounting Practices and Procedures Manual.

   Action—Compliance.

4. Deferred Premiums—It is recommended that the company develop a system methodology for reporting deferred premiums pursuant to the NAIC Annual Statement Instructions Property and Casualty or request a permitted practice.

   Action—Compliance.

5. Reinsurance Contract Documentation—It is recommended that the company establish procedures to ensure that signed, executed copies of reinsurance treaties are obtained from all reinsurers in a timely manner, in accordance with SSAP 62, paragraph 23 of the NAIC Accounting Practices and Procedures Manual.

   Action—Compliance.

6. Reinsurance Contract Restrictions—It is recommended that the company make every effort to remove AM Best rating restriction termination provisions in subsequent contract renegotiations with its broker.

   Action—Compliance.

7. Reinsurance Recoverables - Classification—It is recommended that Reinsurance Recoverables on Loss and Loss Adjustment Expenses received prior to claim payment should be more appropriately classified on the annual statement as Remittances and Items Not Allocated to reflect the liability due to claimants.

   Action—Compliance.

8. Loss and Loss Adjustment Expense Reserves—It is recommended that the company continue to review its loss and LAE reserve methodology and work with its actuary to develop effective adjusting and other expense reserving procedures, incorporating specific case reserves on individual files where warranted.

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

9. Loss/Claim Approval Controls—It is recommended that the company consistently document compliance with its claim approval procedures requiring management level claim approval based on claim type and amount.

   Action—Compliance.

10. Guaranty Fund Assessment—It is recommended that the company estimate guaranty fund assessments based on current WISF information.

    Action—Compliance.

11. Accrued Real Estate Held For Sale - Expenses—It is recommended that accrued expenses be recognized for contractual commitments related to road construction anticipated in conjunction with remaining real estate property held for sale.

    Action—Compliance.

12. Salaries Payable—It is recommended that the company record an estimated salary expense accrual for both hourly and salaried employee wages earned as of year-end, which will not be paid until the following year.

    Action—Compliance.

13. Employee Benefit Accruals—It is recommended that the company establish procedures to ensure reasonable employee vacation and post retirement benefit accruals are reported based on evaluation of current employee benefit status.

    Action—Compliance.

14. SDS Premium/Loss/Reinsurance System Controls—It is recommended that the company develop a plan to review SDS system reporting limitations and evaluate the cost/benefits of system upgrades or conversion to provide a more complete and effective audit trail in various premium, loss and reinsurance recordkeeping and control areas.

    Action—Compliance.

Summary of Current Examination Results

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

Business Continuity Plan

The company has a business continuity plan that was last updated on March 1, 2007. However, the company has not conducted a disaster recovery test during the four years since the last examination. Periodic testing should be a part of the overall business continuity plan to evaluate its effectiveness and action should be taken based on the results of the tests. The frequency of the testing for restorations of systems should be at least annually and testing for functions should be based on the importance of the function to the company’s operations. Therefore, it is recommended that the company implement a process for testing its business continuity plan at least annually, including financially significant functions, to ensure the viability of operations.

Information Systems Access Controls

The company does not have a formal policy requiring that application passwords be changed on a periodic basis. Changing passwords, at least quarterly, could limit the company’s exposure in the event a password is compromised. The company also does not have a formal process to validate that all active accounts are authorized and that access is limited only to those applications required to perform job functions. Periodically authorizing active accounts and their rights maintains the integrity of information and protects assets. It is recommended that the company require application passwords be changed at least quarterly and that a formal, periodic process be established to authorize access and rights of active accounts.

Aggregate Write-Ins for Liabilities

The company reported Claims Payable and Suspense Salvage & Subrogation as an Aggregate Write-In Liability. In accordance with the NAIC’s Annual Statement Instructions – Property and Casualty, these balances should be included in the loss reserve. The company is still reporting this way since they were notified via a management comment during the prior examination. It is recommended that the company include all unpaid claims or unapplied salvage and subrogation in the total loss reserves reported by the company.

Loss and Loss Adjustment Expense Reserves

Based on case reserves, the examiner calculated loss reserve and loss adjustment expense reserve deficiencies of $263,460 and $84,084, respectively, as of December 31, 2006, for a total reserve deficiency of $347,545. Additionally, the company's carried reserves of $1,986,000 as of December 31, 2006, were approximately $103,000 lower than the mid-point of the reserve range provided by the company's independent actuary. Increasing loss and loss adjustment expense reserves by $350,000 would bring the reserve level to within $3,000 of the upper limit of this reserve range. Accordingly, the current examination "Reconciliation of Surplus per Examination" section of this report reflects a surplus adjustment of $350,000 pertaining to loss and loss adjustment expense reserves. It is again recommended that the company continue to review its loss and loss adjustment expense reserve methodology and work with its actuary to develop effective adjusting and other expense reserving procedures, incorporating specific case reserves on individual files where warranted.

VIII. SUBSEQUENT EVENTS

Company responses to subsequent events issues and review of supporting company documentation indicated the following post examination date contingent commitments or other accounting matters, which could potentially impact financial statement presentation and operations going forward.

Sale of Home Office Building

During the examination, WAMIC's President indicated that the company has placed the company's home office building for sale. Currently, the company only requires use of approximately one-half of the building. The intent is to sell the building and lease the needed space from the new owner at a reasonable cost based on the current market. Proceeds from this transaction could be used to help strengthen the company's financial condition.

IX. CONCLUSION

Wisconsin American Mutual Insurance Company reported assets of $7,149,734, liabilities of $3,424,519 and surplus of $3,725,215 as of December 31, 2006. Overall financial performance trends show improving results from 2002 through 2005, though the company had a loss of approximately $133,000 in 2006. Overall changes since the prior examination were a $5.3 million or 42% decrease in assets, a $4.8 million or 58% decrease in liabilities, and an approximately $500,000 or 11% decrease in surplus.

The company's improved financial performance since the prior examination reflects the company's departure from unprofitable personal business lines, lower claim loss experience, and surplus note repayments, which were offset by adverse reserve development.

The current examination reported a surplus adjustment decreasing the December 31, 2006, surplus by $350,000 to $3,375,215. The above surplus adjustment relates to loss and loss adjustment expense reserve deficiencies. Subsequent examination events relate solely to the company's intention to sell and lease back its home office building.

X. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 23 - Business Continuity Plan—It is recommended that the company implement a process for testing its business continuity plan at least annually, including financially significant functions, to ensure the viability of operations.

2. Page 23 - Information Systems Access Controls—It is recommended that the company require application passwords be changed at least quarterly and that a formal, periodic process be established to authorize access and rights of active accounts.

3. Page 24 - Aggregate Write-Ins for Liabilities—It is recommended that the company include all unpaid claims or unapplied salvage and subrogation in the total loss reserves reported by the company.

4. Page 24 - Loss and Loss Adjustment Expense Reserves—It is again recommended that the company continue to review its loss and loss adjustment expense reserve methodology and work with its actuary to develop effective adjusting and other expense reserving procedures, incorporating specific case reserves on individual files where warranted.

XI. ACKNOWLEDGMENT

The courtesy and cooperation extended during the course of the examination by the officers and employees of the company are acknowledged.

In addition to the undersigned, the following representatives of the Office of the Commissioner of Insurance, State of Wisconsin, participated in the examination:

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Victoria Y. Chi	Information Systems Audit Specialist
Kelly A. Schauer	Insurance Financial Examiner
Angelita M. Romaker	Insurance Financial Examiner

Respectfully submitted,

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Examiner-in-Charge