

Report
of the
Examination of
Wisconsin Mutual Insurance Company
Madison, Wisconsin
As of December 31, 2017

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State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

Tony Evers, Governor
Mark V. Afable, Commissioner

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January 31, 2019

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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:

WISCONSIN MUTUAL INSURANCE COMPANY
Madison, Wisconsin

and this report is respectfully submitted.

I. INTRODUCTION

The previous examination of Wisconsin Mutual Insurance Company (the company, or WMIC) was conducted in 2013 as of December 31, 2012. The current examination covered the intervening period ending December 31, 2017, and included a review of such 2018 transactions as deemed necessary to complete the examination.

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

All accounts and activities of the company were considered in accordance with the risk-focused examination process. This may include assessing significant estimates made by

management and evaluating management's compliance with statutory accounting principles, annual statement instructions, and Wisconsin laws and regulations. The examination does not attest to the fair presentation of the financial statements included herein. If during the course of the examination an adjustment is identified, the impact of such adjustment will be documented separately at the end of the "Financial Data" section in the area captioned "Reconciliation of Surplus per Examination."

Emphasis was placed on those areas of the company's operations accorded a high priority by the examiner-in-charge when planning the examination. 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 1903 as Wisconsin Tornado, Cyclone or Hurricane Mutual Association. An amendment to the articles of incorporation as of September 16, 1976, changed the name to Wisconsin Mutual Insurance Company (WMIC).

The company has been the acquiring party in several mergers during its history. The company absorbed all the assets and assumed all of the liabilities of the following companies:

- Capital Mutual Insurance Company, effective January 1, 1982
- Wisconsin State Mutual Insurance Company, effective December 1, 1982
- Baraboo Mutual Insurance Company, effective December 31, 1998
- Hamburg-Stark Mutual Insurance Company, effective September 30, 2009
- Waukesha County Mutual Insurance Company, effective January 1, 2011

The major products marketed by the company are private passenger auto, homeowner's and farmowner's multiple peril, and auto physical damage. The major products are marketed through 1,414 independent agents who represent over 154 agencies.

In 2017, the company wrote direct premium in the following states:

Wisconsin	\$79,763,648	99.9%
Minnesota	<u>71,556</u>	<u>0.1%</u>
Total	<u>\$79,835,204</u>	<u>100.0%</u>

The following table is a summary of the net insurance premiums written by the company in 2017. 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	\$ 1,344,183	\$0	\$ 119,414	\$ 1,224,769
Allied lines	410,182	0	36,975	373,207
Farmowner’s multiple peril	6,439,798	0	376,004	6,063,794
Homeowner’s multiple peril	22,763,520	0	1,391,446	21,372,074
Commercial multiple peril	5,006,913	0	265,532	4,741,381
Inland marine	939,946	0	76,734	863,212
Other liability – occurrence	651,287	0	516,930	134,357
Private passenger auto liability	21,639,513	0	468,917	21,170,596
Commercial auto liability	395,377	0	8,649	386,728
Auto physical damage	20,244,485	0	465,861	19,778,624
Total All Lines	<u>\$79,835,204</u>	<u>\$0</u>	<u>\$3,726,462</u>	<u>\$76,108,742</u>

III. MANAGEMENT AND CONTROL

Board of Directors

The board of directors consists of nine members. 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 \$2,000 per meeting and outside directors receive a quarterly retainer of \$600 for serving on the board.

Currently the board of directors consists of the following persons:

Name and Residence	Principal Occupation	Term Expires
Holly M. Casavant Fitchburg, Wisconsin	Human Resources Director and Secretary Wisconsin Mutual Insurance Company	2021
Richard B. Johnson Madison, Wisconsin	Retired Realtor First Weber Group	2019
Daniel A. Keyes Madison, Wisconsin	President Wisconsin Mutual Insurance Company	2020
Donald E. Macleish Madison, Wisconsin	Retired Executive Vice President Northern Capital Management Company	2021
Doreen Mickelson Viroqua, Wisconsin	Agent Benson Insurance Agency	2019
Bruce Roberts Madison, Wisconsin	Retired CPA and Retired Assistant Professor, Edgewood College	2020
Francis P. Schaecher Madison, Wisconsin	Retired Senior Vice President Lands' End	2019
Anthony J. Skubal Madison, Wisconsin	Vice President/Treasurer Wisconsin Mutual Insurance Company	2021
Arthur A. Stauffacher Madison, Wisconsin	CPA/Consultant	2020

Officers of the Company

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

Name	Office	2017 Compensation
Daniel A. Keyes	President	\$663,820
Anthony J. Skubal	Vice President/Treasurer	14,200
Holly M. Casavant	Secretary	217,604
Kellye Golden	Director of Operations	160,102
Kristine Burck	Claims Counsel	161,814
Kurt Goetzka	Assistant Treasurer	146,767

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

Arthur Stauffacher, Chair

Richard Johnson

Donald Macleish

Bruce Roberts

Phil Schaecher

IV. REINSURANCE

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

Nonaffiliated Ceding Contracts

1. Type: Property Catastrophe Excess of Loss (1st & 2nd Layer)

Reinsurer: Through Intermediary - Aon Benfield, Inc.

Participating Reinsurer's	Layer 1	Layer 2
Allied World Re. Mgmt. Co.	25.0%	15.0%
Arch Re. Co.	2.5	12.5
Argo Re. Ltd.	5.0	0.0
AXIS Re. Co.	7.5	0.0
Everest Re. Co.	5.0	5.0
Qatar Re. Co. Ltd.	5.0	10.0
R&V Versicherung AG	30.0	30.0
Shelter Mut. Ins. Co.	10.0	12.5
Taiping Re. Co. Ltd.	5.0	5.0
Gen. Ins. Corp. of India	5.0	5.0
Korean Re.	<u>0.0</u>	<u>5.0</u>
	<u>100.0%</u>	<u>100.0%</u>

Scope: All policies classified by the company as property, including the property portions of multi-peril and automobile policies.

Coverage/ Retention:		1st Excess	2nd Excess
Company's Retention		\$3,000,000	\$10,000,000
Reinsurer's Per Occurrence Limit		\$7,000,000	\$15,000,000
Reinsurer's Term Limit		\$14,000,000	\$30,000,000

Premium: First Layer: Rate of 3.614% of net subject earned premium. Annual deposit premium of \$1,137,500 with a minimum premium of \$910,000.

Second Layer: Rate of 1.1914% of net subject earned premium. Annual deposit premium of \$375,000 with a minimum premium of \$300,000.

Effective date: January 1, 2018, through January 1, 2019. The agreement shall continue until cancelled by either party.

Termination: The agreement may be terminated by the company with any of the participating reinsurer's at any time on a cut-off basis by giving 30 days prior written notice.

2. Type: Property Catastrophe Excess of Loss (3rd Layer)

Reinsurer: Through Intermediary - Aon Benfield, Inc.

Participating Reinsurer's

AXIS Re. Co.	7.5%
Everest Re. Co.	5.0
Fidelis Ins.	62.5
Korean Re.	10.0
Shelter Mut. Ins. Co.	<u>15.0</u>
	<u>100.0%</u>

Scope: All policies classified by the company as property, including the property portions of multi-peril and automobile policies.

Retention:

	3rd Excess
Company's Retention	\$25,000,000
Reinsurer's Per Occ. Limit	\$ 5,000,000
Reinsurer's Term Limit	\$10,000,000

Premium: The 3rd layer is at a flat rate premium of \$95,000.

Effective date: January 1, 2018, through January 1, 2019. The agreement shall continue until canceled by either party.

Termination: The agreement may be terminated by the company with any of the participating reinsurer's at any time on a cut-off basis by giving 30 days prior written notice.

3. Type: Quota Share & Excess of Loss - Personal Umbrella & Farm Personal Umbrella Business

Reinsurer: General Reinsurance Corporation

Scope: Shall apply to insurance which is classified by the company as personal umbrella and farm personal umbrella with respect to insureds domiciled in the State of Wisconsin and Minnesota.

Retention: Company Retention: 5% of the first \$1,000,000 each occurrence.
Limit of liability of reinsurer: 95% of the first \$1,000,000 each occurrence.
100% of the difference between the policy limit and the first \$1,000,000 each occurrence.

Premium: 95% of the company's subject written premium for policy limits up to and including \$1,000,000 each occurrence; and 100% of the company's subject written premium for policy limits reinsured in excess of \$1,000,000 each occurrence.

Commissions: Reinsurance premiums shall be subject to a fixed commission allowance of 32.5%.

Effective date: Effective on September 1, 2014, and shall continue in force until terminated.

Termination: Either party can terminate the exhibit, by certified mail, with notice stating the time and date when, not less than 90 days after date of mailing of such notice, termination shall be effective.

4. Type: Quota Share & Excess of Loss - Commercial Umbrella Business

Reinsurer: General Reinsurance Corporation

Scope: Shall apply to insurance which is classified by the company as commercial umbrella with respect to insureds domiciled in the USA, its territories or possessions.

Retention: Company Retention: 5% of the first \$1,000,000 each occurrence/\$1,000,000 aggregate
Limit of liability of the reinsurer: 95% of the first \$1,000,000 each occurrence/\$1,000,000 aggregate; and 100% of the difference between the policy limit and the first \$1,000,000 each occurrence/\$1,000,000 aggregate.

Premium: The company shall pay 95% of the company's subject written premium for policy limits up to and including \$1,000,000 each occurrence/\$1,000,000 aggregate; and 100% of the company's subject written premium for policy limits in excess of \$1,000,000 each occurrence/\$1,000,000 aggregate up to and including \$5,000,000 each occurrence/\$5,000,000 aggregate. Provided limits in excess of \$2,000,000 each occurrence/\$2,000,000 aggregate have been accepted by the reinsurer, as specified in "Special Acceptances."

Commissions: Reinsurance premiums shall be subject to a fixed commission allowance of 32.5%.

Effective Date: Shall become effective on September 1, 2014, and continue in force until terminated.

Termination: Either party can terminate the exhibit, by certified mail, with notice stating the time and date when, not less than 90 days after date of mailing of such notice, termination shall be effective.

5. Type: Excess of Loss - Casualty Business

Reinsurer: General Reinsurance Corporation

Scope: Applies to automobile and other liability business written by the company classified as private passenger auto no-fault, other private passenger auto liability, commercial auto no-fault, other commercial auto liability, other liability, products liability, commercial multiple peril, homeowner's multiple peril, or farmowner's multiple peril, with respect to insureds domiciled in and vehicles principally garaged in the USA, its territories and possessions.

Retention: Company Retention: \$350,000

Limits of Liability of the Reinsurer:

1st Excess Cover: \$ 150,000

2nd Excess Cover: \$ 500,000

3rd Excess Cover: \$1,000,000

Premiums: The company shall pay to the reinsurer a reinsurance premium equal to the applicable percentage of the company's subject earned premium: 1st layer: 1.38%; 2nd layer: 0.58%; 3rd layer: 0.20%.

Effective Date: Shall become effective on January 1, 2016, and shall continue in force until terminated.

Termination: Either party can terminate the Exhibit by certified mail with notice stating the time and date when, not less than 90 days after date of mailing of such notice, termination shall be effective.

6. Type: Excess of Loss of Property Business

Reinsured: General Reinsurance Corporation

Scope: Shall apply to property business written by the company, which is defined as fire, allied lines, inland marine, commercial multiple peril, homeowner's multiple peril, or farmowner's multiple peril.

Retention: Company Retention: \$350,000

Limits of Liability of Reinsurer:

1st Excess Cover: \$ 150,000

2nd Excess Cover: \$ 500,000

3rd Excess Cover: \$1,000,000

Premiums: The company shall pay to the reinsurer a reinsurance premium equal to the applicable percentage of the company's subject earned premium: 1st layer: 1.00%; 2nd layer: 0.57%; 3rd layer: 0.15%.

Effective Date: Shall become effective on January 1, 2016, and shall continue in force until terminated.

Termination: Either party can terminate the Exhibit, by certified mail, with notice stating the time and date when, not less than 90 days after date of mailing of such notice, termination shall be effective.

V. FINANCIAL DATA

The following financial statements reflect the financial condition of the company as reported to the Commissioner of Insurance in the December 31, 2017, 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.

Wisconsin Mutual Insurance Company
Assets
As of December 31, 2017

	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	\$133,799,542	\$ 0	\$133,799,542
Stocks:			
Preferred stocks	2,448,146	0	2,448,146
Common stocks	8,456,861	0	8,456,861
Real estate:			
Occupied by the company	1,178,693	0	1,178,693
Cash, cash equivalents, and short-term investments	3,233,607	0	3,233,607
Investment income due and accrued	769,893	0	769,893
Premiums and considerations:			
Uncollected premiums and agents' balances in course of collection	650,127	0	650,127
Deferred premiums, agents' balances, and installments booked but deferred and not yet due	7,841,538	0	7,841,538
Reinsurance:			
Amounts recoverable from reinsurers	565,558	0	565,558
Net deferred tax asset	1,628,872	0	1,628,872
Electronic data processing equipment and software	34,164	0	34,164
Furniture and equipment, including health care delivery assets	320,352	320,352	0
Prepaid Expenses	77,544	77,544	0
Total Assets	<u>\$161,004,897</u>	<u>\$397,896</u>	<u>\$160,607,001</u>

**Wisconsin Mutual Insurance Company
Liabilities, Surplus, and Other Funds
As of December 31, 2017**

Losses	\$ 24,861,726
Loss adjustment expenses	5,609,940
Commissions payable, contingent commissions, and other similar charges	3,248,227
Other expenses (excluding taxes, licenses, and fees)	567,600
Taxes, licenses, and fees (excluding federal and foreign income taxes)	413,830
Current federal and foreign income taxes	423,000
Unearned premiums	28,964,283
Advance premium	1,081,435
Ceded reinsurance premiums payable (net of ceding commissions)	643,947
Funds held by company under reinsurance treaties	131,439
Remittances and items not allocated	86,266
Payable for securities	153,438
Write-ins for liabilities:	
Pension Transition Liability	<u>1,942,587</u>
Total Liabilities	68,127,718
Surplus as Regards Policyholders	<u>92,479,281</u>
 Total Liabilities and Surplus	 <u>\$160,606,999</u>

**Wisconsin Mutual Insurance Company
Summary of Operations
For the Year 2017**

Underwriting Income		
Premiums earned		\$74,486,842
Deductions:		
Losses incurred	\$47,001,829	
Loss adjustment expenses incurred	3,342,999	
Other underwriting expenses incurred	<u>17,554,850</u>	
Total underwriting deductions		<u>67,899,678</u>
Net underwriting gain (loss)		6,587,164
Investment Income		
Net investment income earned	1,369,645	
Net realized capital gains (losses)	<u>1,424,792</u>	
Net investment gain (loss)		2,794,437
Other Income		
Finance and service charges not included in premiums	417,636	
Write-ins for miscellaneous income:		
Gain on Disposal of Assets	20,985	
Miscellaneous Income	<u>4,493</u>	
Total other income		<u>443,114</u>
Net income (loss) before dividends to policyholders and before federal and foreign income taxes		9,824,715
Dividends to policyholders		<u>0</u>
Net income (loss) after dividends to policyholders but before federal and foreign income taxes		9,824,715
Federal and foreign income taxes incurred		<u>2,497,416</u>
Net Income		<u>\$ 7,327,299</u>

Wisconsin Mutual Insurance Company
Cash Flow
For the Year 2017

Premiums collected net of reinsurance		\$75,719,525
Net investment income		2,739,324
Miscellaneous income		<u>443,114</u>
Total		78,901,963
Benefit- and loss-related payments	\$47,667,384	
Commissions, expenses paid, and aggregate write-ins for deductions	21,848,945	
Federal and foreign income taxes paid (recovered)	<u>2,950,000</u>	
Total deductions		<u>72,466,329</u>
Net cash from operations		6,435,634
Proceeds from investments sold, matured, or repaid:		
Bonds	\$37,739,033	
Stocks	1,659,881	
Net gains (losses) on cash, cash equivalents, and short-term investments	(2,834)	
Miscellaneous proceeds	<u>153,438</u>	
Total investment proceeds		39,549,518
Cost of investments acquired (long-term only):		
Bonds	44,972,354	
Stocks	<u>2,884,383</u>	
Total investments acquired		<u>47,856,737</u>
Net cash from investments		(8,307,219)
Net cash from financing and miscellaneous sources		<u>366,430</u>
Reconciliation:		
Net Change in Cash, Cash Equivalents, and Short-Term Investments		(1,505,156)
Cash, cash equivalents, and short-term investments:		
Beginning of year		<u>4,738,761</u>
End of Year		<u>\$ 3,233,605</u>

**Wisconsin Mutual Insurance Company
Compulsory and Security Surplus Calculation
December 31, 2017**

Assets		\$160,607,001
Less liabilities		<u>68,127,718</u>
Adjusted surplus		\$ 92,479,283
Annual premium:		
Lines other than accident and health	\$76,108,742	
Factor	<u>20%</u>	
Compulsory surplus (subject to a minimum of \$2 million)		<u>15,221,748</u>
Compulsory Surplus Excess (Deficit)		<u>\$ 77,257,535</u>
Adjusted surplus (from above)		\$ 92,479,283
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>21,006,012</u>
Security Surplus Excess (Deficit)		<u>\$ 71,473,271</u>

**Wisconsin Mutual Insurance Company
Analysis of Surplus
For the five-Year Period Ending December 31, 2017**

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

	2017	2016	2015	2014	2013
Surplus, beginning of year	\$85,375,620	\$75,291,684	\$65,698,044	\$60,323,794	\$54,404,897
Net income	7,327,299	8,776,083	9,812,894	6,237,073	5,716,461
Change in net unrealized capital gains/losses	874,706	654,251	(311,628)	24,250	21,548
Change in net deferred income tax	(970,150)	(157,527)	597,866	326,459	(132,130)
Change in nonadmitted assets	287,602	396,073	62,425	(105,389)	566,528
Write-ins for gains and (losses) in surplus: Transition Pension Liability	<u>(415,796)</u>	<u>415,056</u>	<u>(567,917)</u>	<u>(1,108,143)</u>	<u>(253,509)</u>
Surplus, End of Year	<u>\$92,479,281</u>	<u>\$85,375,620</u>	<u>\$75,291,684</u>	<u>\$65,698,044</u>	<u>\$60,323,794</u>

**Wisconsin Mutual Insurance Company
Insurance Regulatory Information System
For the five-Year Period Ending December 31, 2017**

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

Ratio	2017	2016	2015	2014	2013
#1 Gross Premium to Surplus	86%	90%	98%	109%	114%
#2 Net Premium to Surplus	82	86	94	104	107
#3 Change in Net Premiums Written	4	4	3	6	3
#4 Surplus Aid to Surplus	0	0	0	0	0
#5 Two-Year Overall Operating Ratio	86	82	84	87	87
#6 Investment Yield	0.9*	1.3*	1.2*	1.4*	1.5*
#7 Gross Change in Surplus	8	13	15	9	11
#8 Change in Adjusted Surplus	8	13	15	9	11
#9 Liabilities to Liquid Assets	41	42	46	49	50
#10 Agents' Balances to Surplus	1	1	0	0	1
#11 One-Year Reserve Development to Surplus	-1	-4	-5	-3	-3
#12 Two-Year Reserve Development to Surplus	-4	-8	-8	-4	-5
#13 Estimated Current Reserve Deficiency to Surplus	1	-2	-1	1	0

Ratio #6 measures the company's return on invested assets. This exceptional result occurred every year during the examination period. In 2017, WMIC's investment yield was 0.9% where the usual range is between 3.0% and 6.5%. These exceptional results were due, in part, to the low interest rate environment.

Growth of Wisconsin Mutual Insurance Company

Year	Admitted Assets	Liabilities	Surplus as Regards Policyholders	Net Income
2017	\$160,607,001	\$68,127,718	\$92,479,281	\$7,327,299
2016	151,848,334	66,472,717	85,375,620	8,776,083
2015	141,779,831	66,488,148	75,291,684	9,812,894
2014	130,694,823	64,996,779	65,698,044	6,237,073
2013	122,834,706	62,510,908	60,323,794	5,716,461
2012	114,247,607	59,842,710	54,404,897	5,092,598

Year	Gross Premium Written	Net Premium Written	Premium Earned	Loss and LAE Ratio	Expense Ratio	Combined Ratio
2017	\$79,835,204	\$76,108,742	\$74,486,842	67.6%	22.5%	90.1%
2016	76,495,579	73,183,436	72,292,649	62.1	23.2	85.3
2015	73,954,982	70,471,334	69,306,030	57.8	24.4	82.2
2014	71,626,950	68,564,061	66,542,567	66.3	22.9	89.2
2013	68,607,134	64,752,309	63,358,547	66.3	23.4	89.7
2012	66,351,419	62,702,528	62,124,098	68.7	22.7	91.4

During the period under examination, the company's surplus increased by 70%, and WMIC's total gross premium written increased by \$13.5 million to \$79.8 million (net premium written increased by a similar amount). In addition, WMIC's combined ratio never exceeded 91% and WMIC's expense ratio has remained relatively steady, fluctuating between 22.5% and 24.4%.

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, 2017, is accepted.

VI. SUMMARY OF EXAMINATION RESULTS

Compliance with Prior Examination Report Recommendations

There was one specific comment and recommendation in the previous examination report. Comments and recommendations contained in the last examination report and actions taken by the company are as follows:

1. Disaster Recovery—It is recommended that the company expand their disaster recovery plan testing to include all of the critical pieces of their plan. Further, the company should ensure that the documentation for all tests is retained.

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.

Custodial Agreement

During the examination's review of the company's investments, the examiners obtained and reviewed the company's custodial agreement to verify that it met the applicable guidelines for custodial agreements contained in the NAIC Financial Condition Examiners Handbook. It was noted that the company did not include two of the required clauses:

1. If custodian agreement has been terminated or 100% of the account assets in any one custody account have been withdrawn, the custodian shall provide written notification within 3 business days to the insurer's domiciliary commissioner.
2. The custodian shall secure and maintain insurance protection in adequate amount.

Therefore, it is recommended that the company amend its custodial agreement to include all specific language prescribed in the NAIC Financial Condition Examiners Handbook.

Reinsurance Intermediary-Broker Agreement

During the examination's review of the company's reinsurance agreements, the examiners obtained and reviewed the reinsurance intermediary-broker agreement for applicable language prescribed by s. Ins 47.03, Wis. Adm. Code (Required Contract Provisions – Reinsurance Intermediary-Broker). It was noted that the company's agreement did not contain the following required clause, as provided by s. Ins 47.03 (4), Wis. Adm. Code: "The reinsurance intermediary-broker will comply with s. Ins 47.04." Therefore, it is recommended that the company update its reinsurance intermediary-broker agreement to include all applicable language to satisfy s. Ins 47.03, Wis. Adm. Code.

Foreign Investment Limitation

During the examination's review of the company's investments, it was discovered that the company exceeded the investment limitations on foreign investments under s. Ins 6.20 (8) (k), Wis. Adm. Code, which limits investments in countries other than the United States and Canada

to 2% of admitted assets. The overage on foreign securities is permitted up to 5% of admitted assets under s. 620.22 (9), Wis. Stat (the “basket clause”). Overall, the company’s investments exceeded the Wisconsin investment limitations by \$137,115. This amount should have been deducted from assets in the calculation of the compulsory and security surplus in accordance with s. 620.21, Wis. Stat. It is recommended that the company implement procedures to ensure that its invested assets comply with the foreign investment limitation set forth in s. Ins 6.20 (8) (k), Wis. Adm. Code. If at any time the company’s invested assets exceed this limit, the company shall adjust its compulsory and security surplus calculation in accordance with s. 620.21, Wis. Stat.

Unclaimed Property

The examination’s review of the company’s outstanding checks noted that a number of bank accounts had checks on the outstanding check list older than five years. Wisconsin’s Unclaimed Property Statute, ch. 177 Wis. Stat., states that all unclaimed property should be remitted to the State of Wisconsin within a five-year period. It is recommended that the company report its unclaimed property to the State of Wisconsin in accordance with ch. 177, Wis. Stat. It is further recommended that the company develop a formal written escheat policy. The policy should address: (1) the company’s procedures relating to stale-dated checks (sufficient to ensure compliance with ch. 177, Wis. Stat.); and (2) the establishment and maintenance of an escheat liability account (to hold stale-dated checks outstanding for over one year).

Conflict of Interest

The State of Wisconsin enacted the NAIC’s Corporate Governance Model Law (s. 610.80, Wis. Stat.) effective July 21, 2018, which requires insurers to describe their corporate governance framework in sufficient detail to allow regulators to assess the adequacy of the insurer’s oversight function. This oversight function is critical for ensuring the protection of the insurer’s interests and reputation. The following observations were noted during the review of the company’s Bylaws and Code of Conduct:

Bylaws: The company’s Bylaws (Article VI, Section V) grant the president the authority to “appoint such non-principal officers and assistant officers, agents and employees of

the corporation as he shall deem necessary, to prescribe their powers, duties and compensation, and to delegate authority to them.” The Bylaws do not provide a mechanism for addressing situations where the president has either a real or potential conflict of interest that could undermine his or her impartiality in carrying out this authority.

Code of Conduct: The company’s Code of Conduct does not provide examples of situations that could create a conflict of interest, such as hiring or contracting decisions that directly (or indirectly, through a related party) benefit the director, officer, or employee. In addition, the Code of Conduct does not require that directors, officers, and employees recuse themselves from any decisions or votes on any matters in which they have a conflict of interest or the appearance thereof.

It is recommended that the company amend Article VI, Section V of its Bylaws to require that the president be recused from any decisions in which he or she has a real or potential conflict of interest, and that the board (or a committee thereof) shall be authorized in such situations to carry out this authority.

It is further recommended that the company amend its Code of Conduct to: (1) provide examples of situations that could create a conflict of interest, such as hiring or contracting decisions that benefit the personal or financial interests of the director, officer, or employee directly (or indirectly through a related party); and (2) require that directors, officers, and employees recuse themselves from any decisions or votes on any matters in which they have a conflict of interest (or the appearance thereof), in accordance with s. 611.60 (2), Wis. Stat.

Business Continuity Plan

During the IT examiner’s review of the company’s Business Continuity Plan (BCP), it was noted that the company did not conduct a Business Impact Analysis or Risk Assessment for the BCP. It is recommended that the company develop a Business Continuity Plan based on a Business Impact Analysis or Risk Assessment that identifies all critical business functions and supporting systems. The plan should consider the business disruptions from third parties (if the company outsources critical operations to third parties). The business continuity plan should be

written, and should include a step-by-step framework that is easily accessible and executable in an emergency situation.

It is further recommended that the company update and test its BCP under different scenarios, such as business operation disruptions from blackouts, catastrophes, or third-party service providers, and that the testing results are reviewed by senior management and the board of directors.

User Access Review

Periodic reviews of system/application/database access by the owners are critical to strong internal controls. Staff may be assigned to different roles and responsibilities, which could compromise proper segregation of duties. Periodic user access reviews can reduce the risk of system misuse by preventing or detecting the use of unauthorized, excessive privilege, and dormant accounts. It is recommended that the company conduct periodic user access reviews.

VII. CONCLUSION

Wisconsin Mutual Insurance Company reported admitted assets of \$160,607,001, liabilities of \$68,127,718, and policyholders' surplus of \$92,479,281, as of December 31, 2017.

During the period under examination, the company's admitted assets, liabilities, and surplus increased by 40.6%, 13.8%, and 70.0%, respectively. WMIC reported a net income of \$7.3 million as of December 31, 2017. The major products marketed by the company are private passenger auto, homeowner's and farmowner's multiple peril, and auto physical damage. The company is licensed to write business in both Wisconsin and Minnesota, and in 2017 the company started writing business in the state of Minnesota. The company's direct premium written in Minnesota is 0.1% of their total direct premiums written. In 2017, WMIC reported an underwriting gain of \$2.8 million and reported a net income of \$7.3 million. Every year during the examination period, Wisconsin Mutual has reported both a net underwriting gain and a net income.

The examination resulted in 10 recommendations. There were no adjustments to surplus and there were no reclassifications of account balances to note. The company was found to be in compliance with the only recommendation made during the previous examination.

VIII. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 20 - Custodial Agreement—It is recommended that the company amend its custodial agreement to include all specific language prescribed in the NAIC Financial Condition Examiners Handbook.
2. Page 20 - Reinsurance Intermediary-Broker Agreement—It is recommended that the company update its reinsurance intermediary-broker agreement to include all applicable language to satisfy s. Ins 47.03, Wis. Adm. Code.
3. Page 21 - Foreign Investment Limitation—It is recommended that the company implement procedures to ensure that its invested assets comply with the foreign investment limitation set forth in s. Ins 6.20 (8) (k), Wis. Adm. Code. If at any time the company's invested assets exceed this limit, the company shall adjust its compulsory and security surplus calculation in accordance with s. 620.21, Wis. Stat.
4. Page 21 - Unclaimed Property—It is recommended that the company report its unclaimed property to the State of Wisconsin in accordance with ch. 177, Wis. Stat.
5. Page 21 - Unclaimed Property—It is further recommended that the company develop a formal written escheat policy. The policy should address: (1) the company's procedures relating to stale-dated checks (sufficient to ensure compliance with ch. 177, Wis. Stat.); and (2) the establishment and maintenance of an escheat liability account (to hold stale-dated checks outstanding for over one year).
6. Page 22 - Conflict of Interest—It is recommended that the company amend Article VI, Section V of its Bylaws to require that the president be recused from any decisions in which he or she has a real or potential conflict of interest, and that the board (or a committee thereof) shall be authorized in such situations to carry out this authority.
7. Page 22 - Conflict of Interest—It is further recommended that the company amend its Code of Conduct to: (1) provide examples of situations that could create a conflict of interest, such as hiring or contracting decisions that benefit the personal or financial interests of the director, officer, or employee directly (or indirectly through a related party); and (2) require that directors, officers, and employees recuse themselves from any decisions or votes on any matters in which they have a conflict of interest (or the appearance thereof), in accordance with s. 611.60 (2), Wis. Stat.
8. Page 22 - Business Continuity Plan—It is recommended that the company develop a Business Continuity Plan based on a Business Impact Analysis or Risk Assessment that identifies all critical business functions and supporting systems. The plan should consider the business disruptions from third parties (if the company outsources critical operations to third parties). The business continuity plan should be written, and should include a step-by-step framework that is easily accessible and executable in an emergency situation.
9. Page 23 - Business Continuity Plan—It is further recommended that the company update and test its Business Continuity Plan under different scenarios, such as business operation disruptions from blackouts, catastrophes, or third-party

service providers, and that the testing results are reviewed by senior management and the board of directors.

10. Page 23 - User Access Review—It is recommended that the company conduct periodic user access reviews.

IX. ACKNOWLEDGMENT

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

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

Name	Title
Dana Tice	Insurance Financial Examiner
Yi Xu	Insurance Financial Examiner
Judith Michael	Insurance Financial Examiner-Senior (as ACL Specialist)
Eleanor Lu	Insurance Financial Examiner-Advanced, Information Systems Audit Specialist
Jerry DeArmond, CFE	Insurance Financial Examiner-Advanced, Loss Reserve Specialist
Karl Albert, CFE	Insurance Financial Examiner-Advanced, Exam Planning and Quality Control Specialist

Respectfully submitted,

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Examiner-in-Charge