

Report of the Examination of
Wausau Business Insurance Company
Wausau, Wisconsin
As of December 31, 2018

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State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

Tony Evers, Governor
Mark V. Afable, Commissioner

Wisconsin.gov

June 10, 2020

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

Commissioner:

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

WAUSAU BUSINESS INSURANCE COMPANY
Wausau, Wisconsin

and this report is respectfully submitted.

I. INTRODUCTION

The previous examination of Wausau Business Insurance Company (WBIC or the company) was conducted in 2014 as of December 31, 2013. The current examination covered the intervening period ending December 31, 2018 and included a review of such 2019 and 2020 transactions as deemed necessary to complete the examination.

The examination of the company was conducted concurrently with the examination of Liberty Mutual Group (LMG). The Massachusetts Division of Insurance (MA DOI) acted in the capacity as the lead state for the coordinated examinations. Work performed by the MA DOI was reviewed and relied on where deemed appropriate.

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

either currently or prospectively), and evaluate system controls and procedures used to mitigate those risks.

All accounts and activities of the company were considered in accordance with the risk-focused examination process. This may include assessing significant estimates made by management and evaluating management's compliance with statutory accounting principles, annual statement instructions, and Wisconsin laws and regulations. The examination does not attest to the fair presentation of the financial statements included herein. If during the course of the examination an adjustment is identified, the impact of such adjustment will be documented separately at the end of the "Financial Data" section in the area captioned "Reconciliation of Surplus per Examination."

Emphasis was placed on those areas of the company's operations accorded a high priority by the examiner-in-charge when planning the examination.

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

Independent Actuary's Review

Since January 1, 1999, the company has been a participant in a reinsurance pooling agreement with Liberty Mutual Insurance Company (LMIC) and certain of its property and casualty insurance subsidiaries. This reinsurance pooling agreement is also known as the Liberty Pool. The company's net loss and loss adjustment expense reserves are the product of the reserves of the Liberty Pool and the company's participation percentage in the pool.

The MA DOI engaged a third-party consultant to review the adequacy of LMG's loss and loss adjustment expense reserves. The actuary's results were reported to the MA DOI's

examiner-in-charge. As deemed appropriate, reference is made in this report to the actuary's conclusion.

Investment Review

The MA DOI engaged the same third-party consultant to perform a review of the company's invested assets portfolio as of December 31, 2018. The results of that review were reported to the MA DOI examiner-in-charge. As deemed appropriate, reference is made in this report to the findings of the review.

II. HISTORY AND PLAN OF OPERATION

Wausau Business Insurance Company is the successor to the Cannery Exchange Subscribers, an Illinois reciprocal insurer organized in 1907. Cannery Exchange Subscribers, the predecessor to WBIC, became affiliated on January 1, 1983, with Employers Insurance Company of Wausau (then known as EMPLOYERS INSURANCE OF WAUSAU A Mutual Company), when all of the outstanding shares of the reciprocal's attorney-in-fact corporation, Lansing B. Warner, Inc., were purchased by Wausau Service Corporation. Wausau Service Corporation was at that time a first-tier intermediate holding company subsidiary of EMPLOYERS INSURANCE OF WAUSAU A Mutual Company (EICOW-Mutual).

WBIC was incorporated on June 30, 1987, as Westwood Insurance Company under the laws of the state of Illinois to affect a conversion of Cannery Exchange Subscribers to a stock company. The assets and liabilities of the reciprocal were merged into the stock company on July 1, 1987. On September 1, 1990, the company redomiciled to Wisconsin and simultaneously changed its name to that currently used.

On November 23, 1985, Employers consummated an affiliation agreement with Nationwide Mutual Insurance Company (NMIC) dated November 6, 1985. NMIC's sister company, Nationwide Mutual Fire Insurance Company, was not party to the affiliation agreement. Within the context of this agreement, and certain subsequent agreements, NMIC exercised control of EICOW-Mutual and its subsidiaries through nomination of the various boards of directors, common executive management, and control of the reinsurance pool to which all direct premiums written by WBIC were then ceded and from which all net premiums written were then assumed. The directors of EICOW-Mutual continued to be elected by the policyholders of EICOW-Mutual, as required by s. 611.53 (2), Wis. Stat., but election and reelection of nominees associated with NMIC on the EICOW-Mutual's board preserved the affiliation.

The years of affiliation with NMIC resulted in considerable integration of the operations of Employers and NMIC, together with their respective subsidiaries and affiliates. The two insurers and many of their respective insurance subsidiaries, including WBIC, pooled their risks and shared a program of external reinsurance on the pooled risks. The same persons held

many of the senior executive positions of NMIC and EICOW-Mutual. EICOW-Mutual and its subsidiaries and NMIC and its subsidiaries provided numerous services to one another. The employees of Wausau Service Corporation received pension, medical, and other benefits from plans sponsored by NMIC.

In 1998, NMIC decided to end its affiliation with EICOW-Mutual in order to focus greater attention on personal lines, particularly on promotion and service to its "First of America" brand of life insurance and investment products. The management of EICOW-Mutual searched for an affiliation in replacement that would provide the company with a means of severing its ties with NMIC in an orderly manner that preserved the continuity of quality service to policyholders and claimants.

On October 5, 1998, EICOW-Mutual entered into an Affiliation and Contribution Note Purchase Agreement with LMIC and a De-Affiliation Master Agreement with NMIC. The affiliation with LMIC was approved by this office, following a public hearing on December 16, 1998, and, under the terms of the agreement, became effective January 1, 1999. The disaffiliation with NMIC was approved in writing on December 16, 1998, and, under the terms of that agreement, became effective December 31, 1998. As part of the affiliation, LMIC purchased Wausau Insurance Company (U.K.) Limited and Wausau Service Corporation, together with the latter's subsidiaries, including WBIC.

Thus, the company became an affiliate of LMIC and its current ultimate parent, Liberty Mutual Holding Company (LMHC). As discussed later in this report, in 2001 EICOW-Mutual restructured into a Mutual Holding Company and became a stock insurer named Employers Insurance Company of Wausau (EICOW).

On September 4, 2009, as part of a reorganization, LMIC dissolved Wausau Service Corporation and transferred the company's stock in its subsidiaries, including WBIC, to LMIC. Additional information concerning the holding company system is contained in the section of this report titled "Affiliated Companies."

As of December 31, 2018, the company's capitalization included \$10,900,000 in the form of 10,900,000 common shares (of 20,000,000 authorized) with a par value of \$1.00 per share, and \$14,900,000 of paid-in and contributed surplus.

The company has no employees of its own. All day-to-day operations are conducted with staff provided by Liberty Mutual Group Inc. (LMGI) and LMIC in accordance with the business practices and internal controls of those organizations. Expenses are paid by LMIC on behalf of the company, or, in some cases, directly by the company for itself. Expenses other than federal income taxes are allocated through the pooling agreement. Tax allocations are established in accordance with a written consolidated federal income tax sharing agreement applicable to LMHC and certain of its direct and indirect subsidiaries. Intercompany balances with affiliates are created in the ordinary course of business with settlements generally made on a quarterly basis. Written agreements with affiliates are further described in the section of this report titled "Affiliated Companies."

WBIC's support services are provided from the home office owned by LMIC in Boston, Massachusetts, and the home office of EICOW in Wausau, Wisconsin, as well as through a network of leased office facilities throughout the United States.

As of the examination date, the company is licensed in all 50 states and the District of Columbia. In 2018, the company wrote direct premium in the following states:

Wisconsin	\$3,211,221	101.6%
All others	<u>(50,241)</u>	<u>(1.6)</u>
Total	<u>\$3,160,980</u>	<u>100.0%</u>

In the state of Wisconsin, the company is licensed to transact the following lines of business as defined by s. Ins 6.75 (2), Wis. Adm. Code:

- (a) Fire, Inland Marine, and Other Property
- (d) Liability and Incidental Medical Expense
- (e) Automobile
- (f) Fidelity
- (g) Surety
- (k) Workers' Compensation
- (n) Miscellaneous
- (o) Aircraft

As of December 31, 2018, business was written primarily by independent agents and brokers. Independent agents are compensated according to the following commission schedule. Some rates are on a sliding scale that declines with the volume of premium or service revenue related to a specific policy.

Product Line	Commission Rates
Workers' Compensation	5%
General Liability	15
Auto	15
Umbrella	15
Packages	15
Other Liability	15
Other Property	15
Highly Protected Risks/Property Special Risks	15
Fidelity, Burglary and Other Crime	15
Plate Glass	10
Contract Surety Bonds	5 to 30
Other Surety and Individual and Schedule Public Official Bonds	25

Independent agents are also eligible to earn contingent commissions based on written premium growth performance and loss performance during a calendar year.

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

Line of Business	Direct Premium	Reinsurance Assumed	Reinsurance Ceded	Net Premium
Homeowners multiple peril	\$ 14,845	\$0	\$ 14,845	\$0
Workers' compensation	(29,116)	0	(29,116)	0
Other liability – occurrence	<u>3,175,250</u>	<u>0</u>	<u>3,175,250</u>	<u>0</u>
Total All Lines	<u>\$3,160,979</u>	<u>\$0</u>	<u>\$3,160,979</u>	<u>\$0</u>

III. MANAGEMENT AND CONTROL

Board of Directors

The board of directors consists of nine members. Directors are elected annually to serve a one-year term. Officers are elected at the board's annual meeting. Members of the company's board of directors may also be members of other boards of directors in the holding company group. All board members have executive management positions within the holding company structure, and they receive no distinct and separate compensation for service as directors.

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

Name and Residence	Principal Occupation	Term Expires
Matthew P. Dolan Avon, Connecticut	President, North America Specialty Liberty Mutual Group Inc.	2020
Alison B. Erbig Stoneham, Massachusetts	Senior Vice President and Comptroller Liberty Mutual Group Inc.	2020
Michael J. Fallon Bedford, Massachusetts	President, National Insurance Liberty Mutual Group Inc.	2020
Julie M. Haase Boston, Massachusetts	Chief Financial Officer, Global Retail Markets Liberty Mutual Group Inc.	2020
James M. MacPhee Boston, Massachusetts	President and Chief Operating Officer, Global Retail Markets US Liberty Mutual Group Inc.	2020
Sean B. McSweeney Ashland, Massachusetts	Deputy General Counsel Liberty Mutual Group Inc.	2020
Elizabeth J. Morahan Newtonville, Massachusetts	Deputy General Counsel Liberty Mutual Group Inc.	2020
Francis W. Robinson, Jr. North Andover, Massachusetts	Chief Financial Officer, Global Risk Solutions Liberty Mutual Group Inc.	2020
Mark C. Touhey Scituate, Massachusetts	Corporate Secretary and Chief of Staff to the Chief Executive Officer Liberty Mutual Group Inc.	2020

Officers of the Company

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

Name	Office	2018 Compensation*
James M. MacPhee	President and Chief Executive Officer	\$0
Mark C. Touhey	Senior Vice President and Secretary	0
Laurance H.S. Yahia	Senior Vice President and Treasurer	0
Alison B. Erbig	Senior Vice President and Comptroller	0
Neeti Bhalla Johnson	EVP and Chief Investment Officer	0
James F. Kelleher	EVP and Chief Legal Officer	0
Christopher L. Peirce	EVP and Chief Financial Officer	0

* The 2018 compensation for the executive officers only includes the allocated amount of incurred salary expenses to the company based on its pool participation percentage, which is 0.0%.

Committees of the Board

The company's bylaws permit the appointment of committees to exercise the powers of the board and the management of the business affairs of the corporation to the extent authorized by law and by board resolution, with certain named exclusions; however, the board did not appoint any committees during the examination period. Board committees appointed by the LMHC board are the following:

Audit Committee

Eric A. Spiegel, Chair
Francis A. Doyle
Thomas J. May
Nancy W. Quan
William C. Van Faasen

Executive Committee

David H. Long, Chair
John P. Manning
Myrtle S. Potter
Martin P. Slark
Eric A. Spiegel
William C. Van Faasen

Investment Committee

David H. Long, Chair
Francis A. Doyle
John P. Manning
Thomas J. May
Martin P. Slark
Eric A. Spiegel
Annette M. Verschuren

Risk Committee

Martin P. Slark, Chair
David H. Long
Myrtle S. Potter
Ellen A. Rudnick
Angel A. Ruiz
Annette M. Verschuren

Compensation Committee

Myrtle S. Potter, Chair
John P. Manning
Thomas J. May
William C. Van Faasen

Community Investments Committee

John P. Manning, Chair
David H. Long
Ellen A. Rudnick
William C. Van Faasen

Committees of the Board (continued)

Nomination and Governance Committee

William C. Van Faasen, Chair

Francis A. Doyle

Myrtle S. Potter

Ellen A. Rudnick

Angel A. Ruiz

IV. AFFILIATED COMPANIES

Wausau Business Insurance Company is a member of a holding company system. Due to the complexity of the holding company system, an abbreviated chart of holding company relationships is presented later in this section of the examination report. The chart includes only significant affiliates and ones that directly affect the operations of WBIC. A brief description of the significant affiliates follows the organizational chart on the next page.

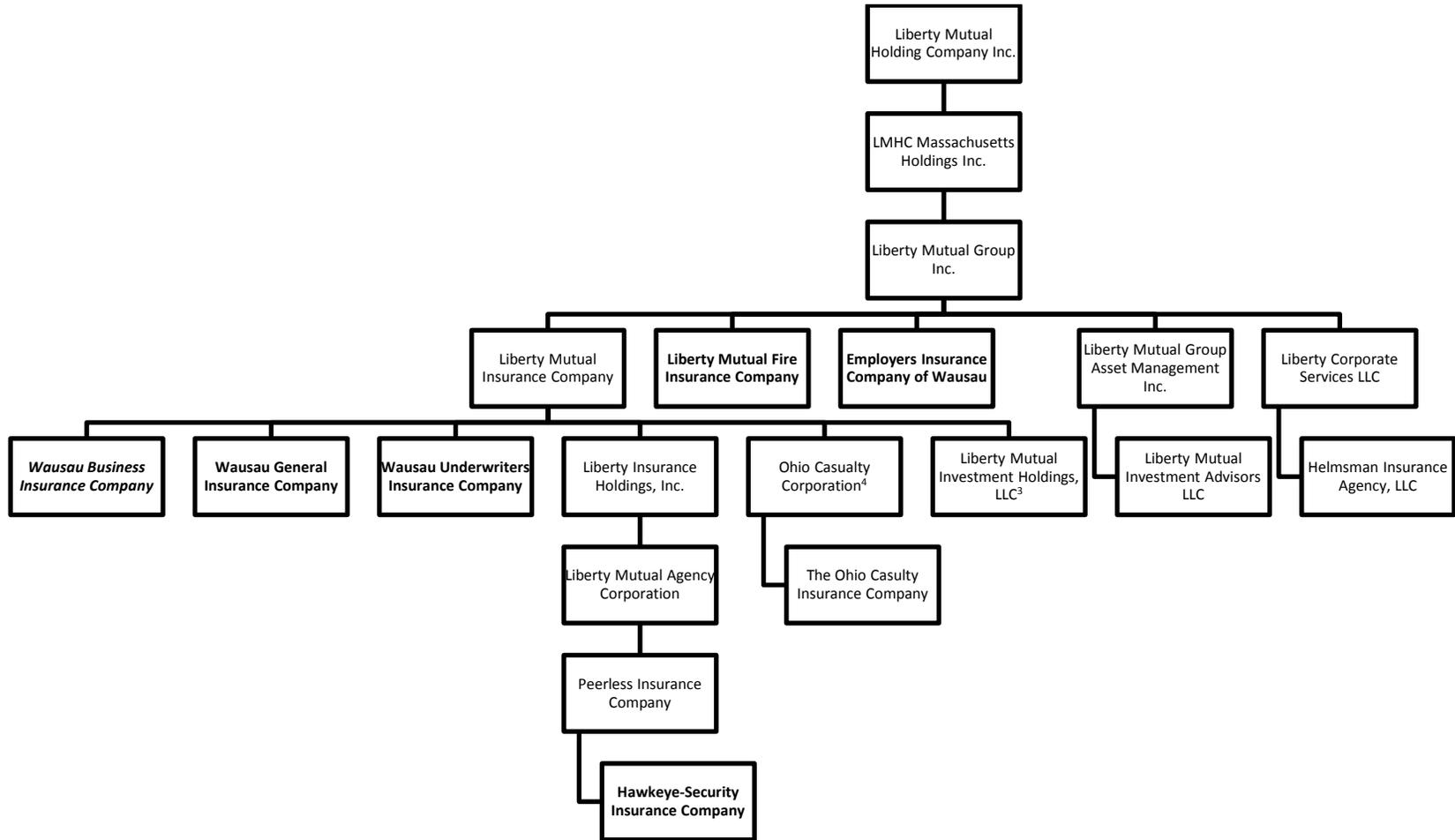
WBIC is a member of LMGI, a multinational holding company system under the control of LMHC. LMGI is a diversified international group of insurance companies offering a wide range of insurance products and services to businesses and individuals operating in 30 countries, with 58 property and casualty insurers, seven insurance brokerages and agencies, and nine providers of ancillary insurance-related services. Its international businesses operate companies to provide insurance products and services to businesses and individuals in many jurisdictions including Australia, Bermuda, Brazil, Canada, Chile, China (including Hong Kong), Colombia, Ecuador, Ireland, India, Mexico, the Netherlands, Peru, Portugal, Russia¹, Singapore, Spain, Thailand, the United Kingdom, Venezuela², and Vietnam. The other entities are other insurance or reinsurance companies outside the United States, holding companies, inactive, or conducting miscellaneous activities such as investment management or investment advisory services.

The size and complexity of the Liberty Mutual Group make the description of each legal entity within the holding company system impractical in the context of this examination report. Therefore, this report will confine its discussion of specific entities to the ultimate parent of the holding company system, LMHC, and other affiliates with whom WBIC has a significant contractual or operational relationship. Written agreements with affiliates will be described following the summary of companies.

¹ Russian entity was sold in 2020.

² Venezuelan entities were sold in 2019.

**Organizational Chart
As of December 31, 2018**



³ Liberty Mutual Investment Holdings is 40% owned by Liberty Mutual Insurance Company, 10% owned by Liberty Mutual Fire Insurance Company, 10% owned by Employers Insurance Company of Wausau, 10% owned by The Ohio Casualty Insurance Company, 22% owned by Peerless Insurance Company, 8% owned by Safeco Insurance Company of America.

⁴ Ohio Casualty Corporation is 8% owned by Peerless Insurance Company, 8% owned by Employers Insurance Company of Wausau, 6% owned by Liberty Mutual Fire Insurance Company, 78% owned by Liberty Mutual Insurance Company.

Liberty Mutual Holding Company Inc.

LMHC was incorporated under the laws of the Commonwealth of Massachusetts on November 28, 2001. Headquartered in Boston, Massachusetts, LMHC serves as the ultimate controlling person for the Liberty Mutual Group. Policyholders of EICOW, Liberty Mutual Fire Insurance Company (LMFIC), LMIC, and Liberty Mutual Personal Insurance Company are members and have equity rights in LMHC. LMHC directly holds the stock of LMHC Massachusetts Holdings Inc., an intermediate stock holding company, which in turn directly holds the stock of LMGI. As of December 31, 2018, the audited financial statements of LMHC reported assets of \$126.0 billion, liabilities of \$105.2 billion, and total policyholders' equity of \$20.8 billion. Operations for 2018 produced net income of \$2.2 billion. The holding group has a segment devoted to investment management of the insurers within the group. LMHC employs more than 50,000 people in approximately 800 offices worldwide and operates primarily through two independent strategic business units (SBUs): Global Retail Markets (GRM) and Global Risk Solutions (GRS).

Global Retail Markets

GRM, with \$28.3 billion of revenues in 2018, is organized into the following three market segments: U.S., West, and East. The U.S. segment consists of Personal Lines and Business Lines. U.S. Personal Lines sells automobile, homeowners, and other types of property and casualty insurance coverage to individuals in the United States. These products are distributed through approximately 1,900 licensed employee sales representatives, 900 licensed telesales counselors, independent agents, third-party producers, the internet, and sponsored affinity groups, the latter of which are a significant source of new business. U.S. Business Lines serves small commercial customers through an operating model that combines local underwriting, market knowledge, and service with the scale advantages of a national company. The West segment sells property and casualty, health, and life insurance products and services to individuals and businesses in Brazil, Colombia, Chile, Ecuador, Spain, Portugal, and Ireland. The East segment sells property and casualty, health, and life insurance products and services to

individuals and businesses in Thailand, Singapore, Hong Kong, Vietnam, Malaysia, India, China, and Russia.

Global Risk Solutions

GRS, with \$12.3 billion of revenues in 2018, offers a wide array of property, casualty, specialty and reinsurance coverage distributed through brokers and independent agents globally. GRS is organized into the following five market segments: Liberty Specialty Markets, National Insurance, North America Specialty, Global Surety, and Other Global Risk Solutions. The Liberty Specialty Markets segment consists of GRS business outside of North America. The National Insurance segment consists of U.S. admitted property and casualty business with per policy annual premium in excess of \$150,000. The North America Specialty segment consists of specialty lines and non-admitted property and casualty business in North America. The Global Surety segment provides global contract and commercial surety bonds to businesses of all sizes. The Other Global Risk Solutions segment primarily consists of internal reinsurance programs across the Liberty Mutual enterprise.

Liberty Mutual Group Inc.

LMGI was incorporated under the laws of the Commonwealth of Massachusetts on November 28, 2001. Headquartered in Boston, Massachusetts, the company serves as an intermediate stock holding company within the mutual holding company system. It directly holds the stock of LMIC, LMFIC, EICOW, and other insurance and non-insurance entities. It is the primary entity used to raise funds for the Liberty Mutual Group, primarily through the issuance of short-term and long-term debt instruments to unrelated third parties.

As of December 31, 2018, Liberty Mutual Group Inc., reported assets of \$126.0 billion, liabilities of \$105.2 billion, equity of \$20.8 billion, and a net income attributable to LMGI of \$2.2 billion.

Liberty Mutual Insurance Company

LMIC was incorporated under the laws of the Commonwealth of Massachusetts on January 1, 1912, and commenced business on July 1, 1912. Headquartered in Boston, Massachusetts, LMIC is a diversified property and casualty insurer of commercial and

personal lines, with distribution through captive sales representatives, telesales counselors, third-party producers, and the internet. The company is licensed in all 50 states, the District of Columbia, Puerto Rico, the U.S. Virgin Islands, the Northern Mariana Islands, Canada, and in various other foreign countries. LMIC has a 50% net participation in the Liberty Mutual Group intercompany reinsurance pooling arrangement (Liberty Pool). A detailed description of the Liberty Pool is included in Section V of this report under the caption “Affiliated Pooling Agreement – Liberty Pool.”

As of December 31, 2018, LMIC reported admitted assets of \$48.8 billion, liabilities of \$32.5 billion, policyholders’ surplus of \$16.3 billion, and a net income of \$2.9 billion. LMIC was examined as of December 31, 2018, concurrently with WBIC, and the results of that examination were expressed in a separate report issued by the Massachusetts Division of Insurance.

Employers Insurance Company of Wausau

EICOW was originally incorporated as a mutual company in the state of Wisconsin on August 21, 1911, under the name Employers Mutual Liability Insurance Company of Wisconsin. On September 1, 1979, the company changed its name to EMPLOYERS INSURANCE OF WAUSAU A Mutual Company (EICOW-Mutual).

Effective on November 22, 2001, EICOW-Mutual was restructured into a mutual holding company. Pursuant to the mutual holding company restructuring, EICOW-Mutual became a stock company, and the company was also renamed to its present name, Employers Insurance Company of Wausau, effective November 21, 2001. Thereafter, 100% of the stock of EICOW was owned by the newly formed Employers Insurance of Wausau Mutual Holding Company. Effective on March 19, 2002, Employers Insurance of Wausau Mutual Holding Company was merged into LMHC. Since that time, policyholders of EICOW have been members of LMHC.

EICOW is currently licensed in all 50 states, the District of Columbia, Puerto Rico, the U.S. Virgin Islands, and Canada. The workers’ compensation line of business provided approximately 43.8% of direct premiums written in 2018. EICOW has an 8% net participation in the Liberty Pool.

As of December 31, 2018, EICOW reported assets of \$6.4 billion, liabilities of \$4.7 billion, policyholders' surplus of \$1.7 billion, and a net income of \$0.2 billion. EICOW was examined as of December 31, 2018, concurrently with WBIC, and the results of that examination were expressed in a separate report.

Liberty Mutual Fire Insurance Company

LMFIC was incorporated as the United Druggists Mutual Fire Insurance Company on October 31, 1908, under the laws of Massachusetts and commenced business on November 5, 1908. The present name of Liberty Mutual Fire Insurance Company was adopted on December 31, 1949. LMFIC redomiciled from the Commonwealth of Massachusetts to the state of Wisconsin effective December 22, 2005.

LMFIC is currently licensed in all 50 states, the District of Columbia, and Puerto Rico. The homeowners' multiple peril and personal automobile liability lines of business each provided approximately 23% and 20%, respectively, of direct premiums written in 2018. LMFIC has an 8% net participation in the Liberty Pool.

As of December 31, 2018, LMFIC reported assets of \$6.5 billion, liabilities of \$4.8 billion, policyholders' surplus of \$1.7 billion, and a net income of \$0.4 billion. LMFIC was examined as of December 31, 2018, concurrently with WBIC, and the results of that examination were expressed in a separate report.

Hawkeye-Security Insurance Company

Hawkeye-Security Insurance Company (HSIC) became affiliated with LMHC on May 10, 1999, as a result of LMIC's purchase of the company's parent, Guardian Royal Exchange Holdings, Inc. LMIC also acquired the rights to the Hawkeye-Security name, which was changed from Tower Insurance Company, Inc., to the current name. On August 15, 2003, the company was contributed to Peerless Insurance Company, where it remains a wholly owned subsidiary, and became part of the Peerless Intercompany Reinsurance Pool (Peerless Pool). Effective January 1, 2013, the Peerless Pool was terminated, and the Liberty Pool was amended to adjust pooling percentages and add a number of affiliates, including HSIC. Further discussion

of the Peerless Pool is in Section V of this report captioned, "Affiliated Pooling Agreement – Liberty Pool."

HSIC is a multiline property and casualty company licensed in 13 states. The commercial multiple peril and other liability-occurrence lines of business provided approximately 36% and 34%, respectively, of direct premiums written in 2018. HSIC has a 0% net participation in the Liberty Pool.

As of December 31, 2018, HSIC reported admitted assets of \$13.7 million, liabilities of \$0.3 million, policyholders' surplus of \$13.4 million, and a net income of \$0.2 million. HSIC was examined as of December 31, 2018, concurrently with WBIC, and the results of that examination were expressed in a separate report.

Wausau General Insurance Company

Wausau General Insurance Company (WGIC) was incorporated under the laws of the state of Illinois on October 10, 1972, as Illinois Employers Insurance Company of Wausau, and commenced business on November 29, 1972. On April 30, 1991, the name was changed to that presently used. WGIC redomiciled from Illinois to Wisconsin effective August 1, 1999.

WGIC is a multiline property and casualty company licensed in nine states. The homeowners line of business in Wisconsin provided 98% of direct premiums written in 2018. WGIC has a 0% net participation in the Liberty Pool. The corporation is a wholly owned subsidiary of LMIC.

As of December 31, 2018, WGIC reported admitted assets of \$16.4 million, liabilities of \$3.7 million, policyholders' surplus of \$12.7 million, and a net income of \$0.3 million. WGIC was examined as of December 31, 2018, concurrently with WBIC, and the results of that examination were expressed in a separate report.

Wausau Underwriters Insurance Company

Wausau Underwriters Insurance Company (WUIC) was incorporated on September 27, 1979, as Wausau Insurance Company, under the laws of the state of Wisconsin, to effectuate a change in the corporate domicile from Arkansas to Wisconsin which was consummated on January 1, 1980.

WUIC is a multiline property and casualty company licensed in all 50 states, Puerto Rico, the U.S. Virgin Islands, and the District of Columbia. The private passenger auto liability and auto physical damage lines of business in New Jersey provided approximately 67% and 33%, respectively, of direct premiums written in 2018. WUIC has a 0% net participation in the Liberty Pool.

As of December 31, 2018, WUIC reported admitted assets of \$133.0 million, liabilities of \$63.0 million, policyholders' surplus of \$70.0 million, and a net income of \$1.6 million. WUIC was examined as of December 31, 2018, concurrently with WBIC, and the results of that examination were expressed in a separate report.

Liberty Mutual Group Asset Management Inc.

Liberty Mutual Group Asset Management Inc. (LMGAM) was organized under the laws of the state of Delaware on April 25, 2011. LMGAM provides centralized investment management services to LMGI and its two SBUs with the primary objective of contributing to the capital growth of LMGI using a risk-controlled approach to investments in domestic and international fixed income, corporate debt, real estate, natural resources, and both private and public equities.

As of December 31, 2018, LMGAM reported assets of \$34.5 million, liabilities of \$34.5 million, no equity, and a net loss attributable to controlling interest of \$16.0 million.

Liberty Mutual Investment Advisors LLC

Liberty Mutual Investment Advisors LLC (LMIA) was organized under the laws of the Commonwealth of Massachusetts on June 23, 1999. LMIA provides centralized investment and cash management services to LMGI. The company currently manages a few legacy, traditional, private equity investments and some real estate private equity investments.

As of December 31, 2018, LMIA reported assets of \$10,000, no liabilities, member equity of \$10,000, and no net income.

Liberty Corporate Services LLC

Liberty Corporate Services LLC (LCS) was organized under the laws of the Commonwealth of Massachusetts on January 26, 1995, as Liberty Corporate Services Inc., and

was converted to a limited liability company effective July 1, 2004. LCS's principal activity is as a holding company for many companies providing financial services and insurance services to the Liberty Mutual Group. LCS has officers and directors and is member managed.

As of December 31, 2018, LCS reported assets of \$319.8 million, liabilities of \$263.9 million, equity of \$55.9 million, and a net income attributable to controlling interest of \$560.1 million.

Agreements with Affiliates

In addition to common staffing and management control, the company's relationship to its affiliates is affected by various written agreements and undertakings. Reinsurance Agreements are described in Section V of the report titled "Reinsurance." A summary of the other agreements and undertakings follows. Unless otherwise specified, amounts owing between the parties are to be settled within 45 days after the end of the calendar quarter.

Liberty Mutual Holding Company Inc.

Federal Tax Sharing Agreement

Effective January 1, 2002, the company entered into a Federal Tax Sharing Agreement with LMHC and all of the parties of LMGI. Under this agreement, LMHC files a consolidated U.S. federal income tax return that includes the company and other affiliates of the holding company system.

The agreement sets forth the rights and obligations of the parties to the agreement with respect to the determination and settlement of federal income tax liabilities as well as the allocation of LMGI's consolidated U.S. federal income tax liability in accordance with a rational systematic formula. The agreement provides for computation of tax, settlement of balances between affiliates, tax sharing, filing the return, audits and other adjustments, dispute resolution, and other administrative requirements.

The agreement calls for the settling of estimated federal tax payments on the 12th day of April, June, September, December, and March. Final settlement is due within 30 days of the receipt of the invoice. The agreement has provisions for members entering or departing the group and provides for successors and assigns.

Liberty Mutual Insurance Company

Cash Management Agreement

Effective January 1, 2016, the company entered into a Cash Management Agreement with LMIC which replaced the Amended and Restated Cash Management Agreement with LMGAM. Under this agreement, LMIC manages an investment pool on behalf of participating members of LMGI, investing and reinvesting funds contributed by the members in short-term obligations of banks, corporations, and the U.S. and Canadian federal governments maturing in 365 days or less from the date of purchase. The agreement allows LMIC to jointly acquire short-term investments for the pool participants and each participant maintains proportionate share ownership of the investments based on contributions to the account. LMIC has the authority to hold the investments on behalf of participants; sell, purchase, transfer or otherwise acquire or dispose of investments; reinvest dividends or interest earned; and collect and credit to the account all proceeds on behalf of the company and the other participants.

For services provided, LMIC receives a monthly fee based on a percentage of the average market value under U.S. GAAP of all cash and securities in the account for that month. Amounts owing between the parties are billed on a monthly basis and settled within 45 days after the end of month. The agreement may be terminated: (i) at the end of any business day by the company upon prior written notice to LMIC; or (ii) at any time by LMIC upon 180 days' written notice to the company.

Management Services Agreement

Effective January 1, 2013, the company entered into a Management Services Agreement with LMIC. Under this agreement, LMIC is to provide all services essential to the day-to-day operation of WBIC and any additional services required by the company as negotiated between the parties.

For services provided, the company shall reimburse LMIC for the reasonable cost of performing any of the services provided pursuant to this agreement. Charges for such services shall include direct and directly allocable expenses to the company by LMIC in conformity with customary insurance accounting practices. Either party may terminate this agreement at any

time by providing 90 days' written notice. The agreement may be terminated immediately by either company if (a) LMIC fails to perform services in accordance with this agreement and such failure is not cured within 30 days, (b) there is nonpayment of costs by one party to the other, (c) either company's insurance license is suspended, revoked, or otherwise restricted, or (d) a change in control where LMIC loses majority control of WBIC's board of directors. In the event of termination, LMIC shall continue to provide such services for up to 90 days as reasonably necessary to transfer service responsibilities to a new party.

Liberty Mutual Group Asset Management Inc.

Investment Management Agreement

Effective July 1, 2011, the company entered into an Investment Management Agreement with LMGAM. Under this agreement, LMGAM acts as the company's agent and attorney-in-fact with respect to its investment portfolio. Subject to the terms and conditions of the investment policy and guidelines (included as appendices to the agreement), LMGAM has complete day-to-day discretionary control, including the power to make acquisitions and disposals of investments and issue instructions to brokers and custodians.

For services provided, LMGAM receives a monthly fee based on a percentage of the average market value under U.S. GAAP of all cash and securities in the account for that month. Amounts owing between the parties are billed on a monthly basis and settled within 45 days after the end of the month. This agreement may be terminated by LMGAM upon 180 days' written notice to the company and terminated by the company at any time upon written notice to LMGAM. Upon termination, LMGAM shall have no further investment responsibility for assets in the company's account but shall have a reasonable time, not to exceed 90 days, to transfer assets to a custodian of the company's selection.

V. REINSURANCE

The company's reinsurance portfolio and strategy are described below. A list of the companies that have a significant amount of reinsurance in force at the time of the examination follows. All contracts reviewed contained proper insolvency provisions. Significant treaties and other risk transfer arrangements are summarized as follows:

Affiliated Pooling Agreement – Liberty Pool

The company participates in the Amended and Restated Pooling Agreement between and among 56 U.S. domiciled affiliates under which LMIC is the pool leader (the Liberty Pool). Effective January 1, 2013, the former intercompany pool, under which Peerless Insurance Company was the pool leader (the “Peerless Pool”) was terminated. The former Peerless Pool members then became parties to the Liberty Pool which resulted in the addition of affiliates and changes to the net pooling percentages for certain Liberty Pool participants. The company assumed a 0.4% share of the net Liberty Pool (by way of retrocession from LMIC). Subsequent to the addition, the company's participation was decreased to 0.0%.

Effective July 1, 2017, the Liberty Pooling agreement was amended to add two new affiliated companies, Ironshore Indemnity Inc., and Ironshore Specialty Insurance Company.

With the exception of WBIC, WGIC, and WUIC, each of the Liberty Pool members, cede 100% of their underwriting activity to LMIC. WBIC, WGIC, and WUIC each cede 100% of their direct underwriting activity to EICOW. EICOW assumes and cedes premiums from certain other affiliated insurers and nonaffiliated insurers. EICOW cedes its net underwriting activity to LMIC.⁵

As the lead company and pool manager, LMIC administers all aspects of the pooled business, including placement of reinsurance with nonaffiliated insurers. After external reinsurance, LMIC distributes the net pooled business according to the participations listed below. Income and expenses related to investment operations and corporate taxes, including federal

⁵ The separate pooling arrangement between the Wausau companies (EICOW, WBIC, WGIC and WUIC) arises out of the October 5, 1998, De-Affiliation Master Agreement with NMIC, which set forth the process for unwinding the discontinued operations of the Wausau companies from the Nationwide Pool. This process continues through the present under two separate agreements: (1) Discontinued Operations Reinsurance Agreement, effective January 1, 2002, whereby WBIC, WGIC and WUIC each cede 100% of their Discontinued Operations (pertaining to the Nationwide Pool business) to EICOW; and (2) the 100% Quota Share Reinsurance Agreement between EICOW and Nationwide Indemnity Company.

income taxes, are excluded from the pooled business. The table below shows the companies participating in the Pool.

Liberty Pool Participations:

	Domicile	2018 Pool %
Liberty Mutual Insurance Company	MA	50%
Peerless Insurance Company	NH	20
Employers Insurance Company of Wausau	WI	8
Liberty Mutual Fire Insurance Company	WI	8
The Ohio Casualty Insurance Company	NH	8
Safeco Insurance Company of America	NH	6
America First Insurance Company	NH	0
America First Lloyds Insurance Company	TX	0
American Fire and Casualty Company	NH	0
American Economy Insurance Company	IN	0
American States Insurance Company	IN	0
American States Insurance Company of Texas	TX	0
American States Lloyds Insurance Company	TX	0
American States Preferred Insurance Company	IN	0
Colorado Casualty Insurance Company	NH	0
Consolidated Insurance Company	IN	0
Excelsior Insurance Company	NH	0
The First Liberty Insurance Corporation	IL	0
First National Insurance Company of America	NH	0
General Insurance Company of America	NH	0
Golden Eagle Insurance Corporation	NH	0
Hawkeye-Security Insurance Company	WI	0
Insurance Company of Illinois	IL	0
Indiana Insurance Company	IN	0
Ironshore Indemnity Inc.	MN	0
Ironshore Specialty Insurance Company	AZ	0
Liberty Insurance Corporation	IL	0
Liberty Insurance Underwriters Inc.	IL	0
Liberty County Mutual Insurance Company	TX	0
Liberty Lloyds of Texas Insurance Company	TX	0
Liberty Mutual Mid-Atlantic Insurance Company	MA	0
Liberty Mutual Personal Insurance Company	MA	0
Liberty Northwest Insurance Corporation	OR	0
Liberty Personal Insurance Company	NH	0
Liberty Surplus Insurance Corporation	NH	0
LM General Insurance Company	IL	0
LM Insurance Corporation	IL	0
Mid-American Fire & Casualty Company	NH	0
Montgomery Mutual Insurance Company	MA	0
The Midwestern Indemnity Company	NH	0
National Insurance Association	IN	0
The Netherlands Insurance Company	NH	0
North Pacific Insurance Company	OR	0
Ohio Security Insurance Company	NH	0
Oregon Automobile Insurance Company	OR	0
Peerless Indemnity Insurance Company	IL	0
Safeco Insurance Company of Illinois	IL	0
Safeco Insurance Company of Indiana	IN	0
Safeco Insurance Company of Oregon	OR	0

	Domicile	2018 Pool %
Safeco Lloyds Insurance Company	TX	0
Safeco National Insurance Company	NH	0
Safeco Surplus Lines Insurance Company	NH	0
Wausau Business Insurance Company	WI	0
Wausau General Insurance Company	WI	0
Wausau Underwriters Insurance Company	WI	0
West American Insurance Company	IN	0

Effective January 1, 2013, three affiliates: Bridgefield Employers Insurance Company, Bridgefield Casualty Insurance Company, and LM Property and Casualty Insurance Company, entered into a 100% quota share agreement with LMIC. On April 1, 2014, Bridgefield Employers Insurance Company and Bridgefield Casualty Insurance Company were sold and the 100% quota share agreement with LMIC was commuted. The agreement remains in place with LM Property and Casualty Insurance Company with 0% participation in the Liberty Pool.

Corporate Reinsurance Programs

LMIC administers corporate reinsurance programs placed with various external reinsurers on behalf of the Liberty Pool. A summary of the major external reinsurance programs impacting the Liberty Pool is discussed in the concurrent examination reports of EICOW and LMFIC.

VI. FINANCIAL DATA

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

Wausau Business Insurance Company
Assets
As of December 31, 2018

	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	\$28,605,491	\$0	\$28,605,491
Cash, cash equivalents, and short-term investments	1,156,482		1,156,482
Securities lending reinvested collateral assets	615,500		615,500
Investment income due and accrued	136,801		136,801
Reinsurance:			
Amounts recoverable from reinsurers	2,261,457		2,261,457
Current federal and foreign income tax recoverable and interest thereon	6,091		6,091
Net deferred tax asset	12,000		12,000
Receivable from parent, subsidiaries, and affiliates	<u>135,241</u>	—	<u>135,241</u>
Total Assets	<u>\$32,929,063</u>	<u>\$0</u>	<u>\$32,929,063</u>

Wausau Business Insurance Company
Liabilities, Surplus, and Other Funds
As of December 31, 2018

Ceded reinsurance premiums payable (net of ceding commissions)		\$ 238,245
Payable to parent, subsidiaries, and affiliates		2,132,876
Payable for securities lending		<u>615,500</u>
Total Liabilities		2,986,621
Common capital stock	\$10,900,000	
Gross paid in and contributed surplus	14,900,000	
Unassigned funds (surplus)	<u>4,142,444</u>	
Surplus as Regards Policyholders		<u>29,942,444</u>
Total Liabilities and Surplus		<u>\$32,929,065</u>

Wausau Business Insurance Company
Summary of Operations
For the Year 2018

Investment Income

Net investment income earned	\$627,537	
Net realized capital gains (losses)	<u>(14,809)</u>	
Net investment gain (loss)		\$ 612,728

Other Income

Write-ins for miscellaneous income:		
Other income/(expense)		<u>16,055</u>

Net income (loss) before federal and foreign income taxes	628,783	
Federal and foreign income taxes incurred	<u>(513,063)</u>	

Net Income		<u>\$1,141,846</u>
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Wausau Business Insurance Company
Cash Flow
For the Year 2018

Premiums collected net of reinsurance		\$ 16,218
Net investment income		619,173
Miscellaneous income		<u>16,055</u>
Total		651,446
Benefit- and loss-related payments	\$(2,060,812)	
Federal and foreign income taxes paid (recovered)	<u>(400,840)</u>	
Total deductions		<u>(2,461,652)</u>
Net cash from operations		3,113,098
Proceeds from investments sold, matured, or repaid:		
Bonds	\$3,234,853	
Other invested assets	<u>4,940,414</u>	
Total investment proceeds		8,175,267
Cost of investments acquired (long- term only):		
Bonds	6,059,165	
Other invested assets	<u>5,413,260</u>	
Total investments acquired		<u>11,472,425</u>
Net cash from investments		(3,297,158)
Cash from financing and miscellaneous sources:		
Other cash provided (applied)		<u>(1,603,153)</u>
Reconciliation:		
Net Change in Cash, Cash Equivalents, and Short-Term Investments		(1,787,213)
Cash, cash equivalents, and short-term investments:		
Beginning of year		<u>2,943,692</u>
End of Year		<u>\$1,156,479</u>

**Wausau Business Insurance Company
Compulsory and Security Surplus Calculation
December 31, 2018**

Assets		\$32,929,063
Less liabilities		<u>2,986,621</u>
Adjusted surplus		29,942,442
Annual premium:		
Lines other than accident and health	\$ 0	
Factor	<u>20%</u>	
Compulsory surplus (subject to a minimum of \$2 million)		<u>2,000,000</u>
Compulsory Surplus Excess (Deficit)		<u>\$27,942,442</u>
Adjusted surplus (from above)		\$29,942,442
Security surplus (140% of compulsory surplus, factor reduced 1% for each \$33 million in premium written in excess of \$10 million, with a minimum factor of 110%)		<u>2,800,000</u>
Security Surplus Excess (Deficit)		<u>\$27,142,442</u>

**Wausau Business Insurance Company
Analysis of Surplus
For the Five-Year Period Ending December 31, 2018**

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

	2018	2017	2016	2015	2014
Surplus, beginning of year	\$29,314,827	\$28,679,313	\$28,634,844	\$26,637,999	\$25,124,076
Net income	1,141,846	372,332	50,166	1,870,084	1,589,922
Change in net unrealized capital gains/losses		(74)		(25)	17
Change in net unrealized foreign exchange capital gains/losses				(141,850)	(76,025)
Change in net deferred income tax	(664,000)	(424,019)	380,000	719,986	9
Change in nonadmitted assets	<u>149,772</u>	<u>687,275</u>	<u>(385,697)</u>	<u>(451,350)</u>	<u> </u>
Surplus, End of Year	<u>\$29,942,445</u>	<u>\$29,314,827</u>	<u>\$28,679,313</u>	<u>\$28,634,844</u>	<u>\$26,637,999</u>

**Wausau Business Insurance Company
Insurance Regulatory Information System
For the Five-Year Period Ending December 31, 2018**

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

Ratio	2018	2017	2016	2015	2014
#1 Gross Premium to Surplus	11%	7%	7%	0%	28%
#2 Net Premium to Surplus	0	0	0	0	0
#3 Change in Net Premiums Written	0	0	0	0	0
#4 Surplus Aid to Surplus	0	0	0	0	0
#5 Two-Year Overall Operating Ratio	0	0	0	0	0
#6 Investment Yield	2.1	2.0*	2.3*	3.2	3.5
#7 Gross Change in Surplus	2	2	0	7	6
#8 Change in Adjusted Surplus	2	2	0	7	6
#9 Liabilities to Liquid Assets	10	18	22	24	51
#10 Agents' Balances to Surplus	0	0	0	0	0
#11 One-Year Reserve Development to Surplus	0	0	0	0	0
#12 Two-Year Reserve Development to Surplus	0	0	0	0	0
#13 Estimated Current Reserve Deficiency to Surplus	0	0	0	0	0

Ratio No. 6 measures the company's investment yield. Throughout the examination period, the company's investment yield was generally reflective of the low interest rate environment. In 2016, several of the company's higher yielding U.S. Treasury Bonds matured, with the proceeds being reinvested at the current prevailing interest rates. As a result, the investment yield experienced a minor decrease in 2016 and 2017. The marginal decrease in investment income then triggered an exception ratio in 2016 and 2017.

Growth of Wausau Business Insurance Company

Year	Admitted Assets	Liabilities	Surplus as Regards Policyholders	Net Income
2018	\$32,929,063	\$ 2,986,621	\$29,942,444	\$1,141,846
2017	34,422,037	5,107,212	29,314,825	372,332
2016	34,832,948	6,153,636	28,679,311	50,166
2015	35,226,956	6,592,113	28,634,842	1,870,084
2014	39,677,878	13,039,879	26,637,999	1,589,922
2013	43,589,590	18,465,514	25,124,076	6,244,813

Year	Gross Premium Written	Net Premium Written	Premium Earned	Loss and LAE Ratio	Expense Ratio	Combined Ratio
2018	\$ 3,160,979	\$ 0	\$ 0	0.0%	0.0%	0.0%
2017	1,932,942	0	0	0.0	0.0	0.0
2016	2,062,095	0	0	0.0	0.0	0.0
2015	108,237	0	0	0.0	0.0	0.0
2014	7,397,945	0	0	0.0	0.0	0.0
2013	29,503,573	(21,521,954)	(5,760)	0.0	-0.1	-0.1

The company reported negative net premium written in 2013 and a significant decrease in gross premium written in 2014. These two changes were the result of a reallocation of pooling participants in the Liberty Pool. Effective January 1, 2013, the company's net pooling participation decrease from 0.4% to 0%. There were also large decreases to both admitted assets and liabilities as the company discontinued writing new premium with renewals written by other companies with the Liberty Mutual Group. As a result, payable to parent and affiliates and amounts recoverable from reinsurers decreased.

The increase in surplus is due primarily to net income. Net income in 2013 was exceptional due to a significant federal income tax benefit and net investment income earned on investments sold to pay a \$28.0 million dividend to LMIC in 2013.

Reconciliation of Surplus per Examination

No adjustments were made to surplus as a result of the examination. The amount of surplus reported by the company as of December 31, 2018, is accepted.

Examination Reclassifications

There were no examination reclassifications as a result of this examination.

VII. SUMMARY OF EXAMINATION RESULTS

Compliance with Prior Examination Report Recommendations

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

Summary of Current Examination Results

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

Board of Directors Meetings

Article III, Section 4 of the company's current bylaws state that the "*Meetings of the Directors shall be held...at least four times in each year as shall be fixed from time to time by the Chief Executive Officer.*" Article III, Section 14 further states that "*any action without a meeting the Board shall be limited to situations where time is of the essence and not in lieu of regularly scheduled meetings.*" During the examiners' review of the board meeting minutes during the examination period, it was noted that the company only met three times in 2018. It is recommended that the company either comply with Article III, Section 4 of its bylaws and hold at least four board meetings each year or amend its bylaws as necessary to reflect its intended practices of corporate governance regarding board meetings.

Reporting of Reinsurance Balances

The company participates in an intercompany pooling reinsurance agreement (Liberty Pool) whereby assumed external reinsurance activity for certain members is ceded to LMIC, the lead pool member. The activity is then retroceded to the Liberty Pool participants based on the pooling percentage. LMG's reinsurance accounting practice is to record external assumed reinsurance on a net basis directly to the lead pool member company (LMIC) for certain companies that participate in the Liberty Pool.

As a result, certain Liberty Pool participants (other than LMIC) are not correctly recording all of their assumed underwriting results on a gross basis whereby the participant's portion of premiums, losses, expenses (including intercompany related expenses), and other operations of the pools are recorded separately in a participant's financial statements rather than netted against each other within LMIC. Paragraph 19 of SSAP No. 62R, *Property and Casualty Reinsurance*, states "*Accounting for members of a reinsurance pool shall follow the accounting for the pool member which issued the underlying policy. Specific accounting rules for*

underwriting pools and associations are addressed in SSAP No. 63-Underwriting Pools”.

Paragraph 9 of SSAP No. 63-*Underwriting Pools* states:

Underwriting results relating to intercompany pools shall be accounted for and reported as described in paragraph 8. While it is acceptable that intercompany pooling transactions be settled through intercompany arrangements and accounts, intercompany pooling transactions shall be reported on a gross basis in the appropriate reinsurance accounts consistent with other direct, assumed and ceded business.

Paragraph 8 of SSAP No. 63-*Underwriting Pools* states:

Underwriting results relating to voluntary and involuntary pools shall be accounted for on a gross basis whereby the participant's portion of premiums, losses, expenses [including related party expenses], and other operations of the pools are recorded separately in the financial statements rather than netted against each other. Premiums and losses shall be recorded as direct, assumed, and/or ceded as applicable. If the reporting entity is a direct writer of the business, premiums shall be recorded as directly written and accounted for in the same manner as other business which is directly written by the entity. To the extent that premium is ceded to a pool, premiums and losses shall be recorded in the same manner as any other reinsurance arrangement. A reporting entity who is a member of a pool shall record its participation in the pool as assumed business as in any other reinsurance arrangement.

The company's current accounting practices create an inaccurately reported Schedule F of the Annual Statement. It is recommended that the company correct its current accounting practice to comply with SSAP No. 62R and SSAP No. 63 requirements for recording reinsurance balances on a gross basis for each individual pool member. Additionally, it is recommended that the company document its amended accounting practice in a formal reinsurance accounting policy memo. It is further recommended that the company also review its reinsurance process narratives/flowcharts and controls and update as necessary, for any changes in its reinsurance accounting practice and processes. It is further recommended that the company evaluate and amend the Liberty Mutual Second Amended and Restated Reinsurance

Agreement for any provisions that are not in compliance with SSAP No. 62R and SSAP No. 63.
Finally, it is recommended that the company correct Schedule F for the revised gross reporting basis for each individual pool member, as necessary.

VIII. CONCLUSION

Wausau Business Insurance Company became affiliated with the Liberty Pool on January 1, 1999, after its parent, EICOW, disaffiliated with Nationwide Mutual Insurance Company. In this way, WBIC became an affiliate of LMIC and its current ultimate parent, LMHC. On September 4, 2009, as part of reorganization, LMIC dissolved Wausau Service Corporation, the company's parent at the time, and transferred the company's stock to LMIC.

WBIC is a multiline property and casualty company licensed in all 50 states and the District of Columbia. The other liability-occurrence line of business in Wisconsin provided approximately 100% of direct premiums written in 2018. WBIC has a 0% net participation in the Liberty Pool. The corporation is a wholly owned subsidiary of LMIC. The 2018 annual statement reported admitted assets of \$32.9 million, liabilities of \$3.0 million, policyholders' surplus of \$29.9 million, and a net income of \$1.1 million.

There were large decreases to both admitted assets and liabilities due to the company discontinuing writing new premium with renewals written by other companies with the Liberty Mutual Group. As a result, payable to parent and affiliates and amounts recoverable from reinsurers decreased. In addition, gross premium written has decreased.

The examination resulted in no adjustments to policyholders' surplus or reclassifications to the balance sheet. The current examination resulted in six recommendations: one related to adherence to bylaws and five related to reporting of reinsurance balances.

IX. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 35 Board of Directors Meetings—It is recommended that the company either comply with Article III, Section 4 of its bylaws and hold at least four board meetings each year or amend its bylaws as necessary to reflect its intended practices of corporate governance regarding board meetings.
2. Page 36 Reporting of Reinsurance Balances—It is recommended that the company correct its current accounting practice to comply with SSAP No. 62R and SSAP No. 63 requirements for recording reinsurance balances on a gross basis for each individual pool member.
3. Page 36 Reporting of Reinsurance Balances—Additionally, it is recommended that the company document its amended accounting practice in a formal reinsurance accounting policy memo.
4. Page 36 Reporting of Reinsurance Balances—It is further recommended that the company also review its reinsurance process narratives/flowcharts and controls and update as necessary, for any changes in its reinsurance accounting practice and processes.
5. Page 36 Reporting of Reinsurance Balances—It is further recommended that the company evaluate and amend the Liberty Mutual Second Amended and Restated Reinsurance Agreement for any provisions that are not in compliance with SSAP No. 62R and SSAP No. 63.
6. Page 37 Reporting of Reinsurance Balances—Finally, it is recommended that the company correct Schedule F for the revised gross reporting basis for each individual pool member, as necessary.

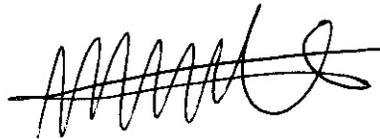
X. ACKNOWLEDGMENT

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

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

Name	Title
Abdel-Aziz Kondoh	Insurance Financial Examiner
Gregory Mielke	Insurance Financial Examiner
Junji Nartatez	Insurance Financial Examiner
Terry Lorenz, CFE	Workpaper Specialist
David Jensen, CFE	IT Specialist
Jerry DeArmond, CFE	Reserve Specialist

Respectfully submitted,



Marisa K. Rodgers
Examiner-in-Charge

XI. APPENDIX—SUBSEQUENT EVENT

On March 11, 2020, the World Health Organization declared coronavirus disease (COVID-19) a pandemic. As of the date of this report, there was significant uncertainty on the effect that the pandemic would have on the insurance industry, economy, and society at large. Any impact to the company or the Liberty Pool will take time to assess and will be specific to the class and mix of business they underwrite. The MA DOI and OCI will continue to monitor how the pandemic might impact the Liberty Mutual Group.