Report

of the

Examination of

Wausau-Stettin Mutual Insurance Company

Wausau, Wisconsin

As of December 31, 2009

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State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

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May 19, 2010

Honorable Sean Dilweg
Commissioner of Insurance
State of Wisconsin
125 South Webster Street
Madison, Wisconsin 53703

Commissioner:

In accordance with your instructions, an examination has been performed as of December 31, 2009, of the affairs and financial condition of:

WAUSAU-STETTIN MUTUAL INSURANCE COMPANY
Wausau, Wisconsin

and the following report thereon is respectfully submitted:

I. INTRODUCTION

The previous examination of Wausau-Stettin Mutual Insurance Company (the company) was made in 2005 as of December 31, 2004. The current examination covered the intervening time period ending December 31, 2009, and included a review of such subsequent transactions deemed essential to complete this examination.

The “Summary of Examination Results” contains elaboration on all areas of the company's operations. Special attention was given to the action taken by the company to satisfy the recommendations and comments made in the previous examination report.

The company was organized as a town mutual insurance company on January 1, 1998, with the consolidation of two town mutuals: Wausau Mutual Insurance Company, organized in 1875, and Stettin Mutual Insurance Company, organized in 1876 under the provisions of the then existing Wisconsin Statutes.

During the period under examination, there were three amendments to the articles of incorporation and one amendment subsequent to December 31, 2009. There was one amendment to the bylaws. The amendments to the articles were: an expansion of the company's territory; new address for the company; change in term limits for the board of directors; and an additional expansion of territory of the company.

The company is currently licensed to write property, including windstorm and hail, and nonproperty insurance. The company is currently licensed to write business in the following 16 counties:

Chippewa	Portage
Clark	Price
Forest	Rusk
Langlade	Shawano
Lincoln	Taylor
Marathon	Vilas
Oconto	Waupaca
Oneida	Wood

A review was made of the policy and application forms currently used by the company. The company issues approved policies with or without endorsements for terms of one year, with premiums payable on the advance premium basis. The company also charges a policy fee varying from $1.00 to $6.00 per installment depending on the number of installments or $10.00 for policies that had originally been written as Wausau Mutual policies.

Business of the company is acquired through 256 agents, one of whom is a director of the company. Agents are presently compensated for their services as follows:

Type of Policy	**Compensation**
All policies, new and renewal	17%

Agents do not have authority to adjust losses. Losses are adjusted by the company's claims department. Adjusters receive a salary and are reimbursed for mileage and meals.

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

Board of Directors

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

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

Name	Principal Occupation	Residence	Expiry
Wendall Bauman	Retired farmer	Edgar, WI	2011
Stanley Beilke*	Insurance agent	Marathon, WI	2011
William Burgener	Semi-retired farmer	Merrill, WI	2012
Mark Ellenbecker	Retired	Athens, WI	2013
Wallace Emmerich	Farmer	Athens, WI	2013
Kelly King	Dairy Farmer	Edgar, WI	2013
Kenneth Leick	Retired	Stratford, WI	2012
Al Soczka, Jr.	Farmer	Edgar, WI	2011
DuWayne Zamzow	Insurance Adjuster	Merrill, WI	2012

Directors who are also agents are identified with an asterisk.

Members of the board currently receive $175.00 for each board meeting attended, varying payments for other meetings and $0.50 per mile or the most recent IRS rate for travel expenses.

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

(1) If a town mutual has fewer than nine directors, no more than one director may be an employee or representative of the town mutual; and

(2) Employees and representatives of a town mutual may not constitute a majority of its board.

The company is in compliance with these requirements.

Officers

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

Name	2010 Office	2009 Office	2009 Compensation
Raymond Zunker		President	$ 6,645
DuWayne Zamzow	President	Secretary-Treasurer	5,620
William Burgener	Secretary-Treasurer	Vice-President	3,775
Wallace Emmerich	Vice-President		2,935
Mark Splinter	General Manager	General Manager	129,846

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

Committees of the Board

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

Executive Committee (also functions as Claims, Investment and Business Plan committees)
DuWayne Zamzow, Chair
Wallace Emmerich
William Burgener

Nominating Committee (members whose term will be ending)
William Burgener
Ken Leick
DuWayne Zamzow

Long-Range Planning Committee
William Burgener, Chair
Ken Leick
Wendell Baumann

Other committees for scholarships, grants farm safety, fire safety, and director's handbook

Growth of Company

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

Year	Net Premiums Earned	Policies In Force	Net Income	Admitted Assets	Policyholders' Surplus
2009	$4,987,143	10,156	$846,707	$14,462,814	$10,002,291
2008	5,143,725	10,303	155,305	13,712,979	9,116,488
2007	5,134,769	10,462	695,243	13,975,061	9,363,950
2006	4,972,609	10,523	945,437	13,335,097	8,677,413
2005	4,552,400	10,393	711,984	12,170,877	7,704,006
2004	4,071,888	9,924	829,561	11,050,030	6,951,057

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

Year	Gross Premiums Written	Net Premiums Written	Policyholders' Surplus	Writings Ratios Net	Writings Ratios Gross
2009	$ 6,566,439	$ 5,009,803	$ 10,002,291	50.1%	65.6%
2008	6,601,681	5,112,975	9,116,488	56.1%	72.4%
2007	6,585,465	5,164,070	9,363,950	55.1%	70.3%
2006	6,622,717	5,020,248	8,677,413	57.9%	76.3%
2005	6,515,201	4,825,375	7,704,006	62.6%	84.6%
2004	5,992,570	4,345,816	6,951,057	62.5%	86.2%

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

Year	Net Losses and LAE Incurred	Other Underwriting Expenses Incurred	Net Premiums Earned	Loss Ratio	Expense Ratio	Com-posite Ratio
2009	$2,001,763	$2,060,728	$4,987,143	40%	41%	81%
2008	3,941,599	1,925,316	5,143,725	77	37	114
2007	2,906,579	1,875,812	5,134,769	57	36	93
2006	2,157,902	1,855,628	4,972,609	43	37	80
2005	2,093,297	1,795,216	4,552,400	46	37	83
2004	1,618,226	1,605,416	4,071,888	40	37	77

The company has reported strong growth and good financial results over the past five years. Surplus has increased 44%. Policies in Force increased 2.3% to 10,156. During the period under examination, 2006 had the greatest number of Policies in Force with 10,523. Net Premium Written has increased 15% and Gross Premium Written increased 9.6%. The company has reported underwriting income in four of the past five years and net income in each of the past five years. Investment income has been generally strong, though unrealized capital losses in 2008 caused a small decrease in surplus. The underwriting expense ratio has seen a small increase in 2009 over the prior four years, but remains low compared to the town mutual industry.

II. REINSURANCE

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

Reinsurer:	Wisconsin Reinsurance Corporation (WRC)
Effective date:	January 1, 2010, continuous
Termination provisions:	Either party may terminate this contract as of any subsequent January 1 by giving to the other party at least 90 days' advance notice in writing

The coverages provided under this treaty are summarized as follows:

1.	Type of contract:	Class A (Liability) – Casualty Excess of Loss Reinsurance
	Lines reinsured:	All casualty business written by the company
	Company's retention:	$10,000 in respect to each and every loss occurrence
	Coverage:	100% of each and every loss occurring on the business covered by this contract, including loss adjustment expenses in excess of the retention, subject to maximum policy limits of $1,000,000 per occurrence, $1,000,000 split limits, $25,000 for medical payments, per person; $25,000 per accident
	Reinsurance premium:	45% of casualty premium written for each and every policy issued. Annual deposit premium of $427,500 with a minimum premium of 75% of the annual deposit premium.
	Ceding commission:	None
2.	Type of contract:	Class B First Surplus Reinsurance
	Lines reinsured:	All property business written by the company
	Company's retention:	$500,000 per ceded risk or at least 50% on a pro rata basis per ceded risk when the company's net retention is $500,000 or less in respect to a risk. The company shall also retain on each loss a per loss retention of 10% of the loss and LAE otherwise recoverable hereunder.
	Coverage:	Reinsurer shall accept up to $800,000 on a pro rata basis when the company's net retention is $500,000 or more in respect to a risk. When the company's net retention is $500,000 or less in respect to a risk, the company may cede on a pro rata basis up to 50% of such risk. Per loss retention of 10%

	Reinsurance premium:	Pro rata portion of all premiums, fees, and assessments charged by the company, corresponding to the amount of each risk ceded
	Ceding commission:	15% direct commission and 15% commission on profit
3.	Type of contract:	C-1 Excess of Loss – First Layer
	Lines reinsured:	All property business written by the company
	Company's retention:	$75,000 per occurrence No annual aggregate deductible
	Coverage:	100% of any loss, including loss adjustment expense, in excess of $75,000, subject to a limit of liability to the reinsurer of $125,000
	Reinsurance premium:	Based on experience over the past four years with load factor of 125% Minimum rate: 7% of current net premiums written Maximum rate: 17.50% of current net premiums written Current rate: 15% Premium deposit: $479,689 Minimum premium is 75% of deposit
	Ceding commission:	None
4.	Type of contract:	C-2 Excess of Loss – Second Layer
	Lines reinsured:	All property business written by the company
	Company's retention:	$200,000 per occurrence
	Coverage:	100% of any loss, including loss adjustment expense, in excess of $200,000, subject to a limit of liability to the reinsurer of $300,000
	Reinsurance premium:	3% of the company's current net premiums written in respect to the business covered Premium deposit: $169,302 Minimum premium is 75% of deposit
	Ceding commission:	None
5.	Type of contract:	First Aggregate Excess of Loss Reinsurance
	Lines reinsured:	All business written by the company
	Company's retention:	67.5% of net written premium (estimated at $3,723,914)
	Coverage:	42.5% of the amount by which the aggregate of the company's losses, including loss adjustment expenses, exceed the retention with a limit of 42.5% of NWP (losses from 67.5% to 110% of NWP)

Reinsurance premium:	Rate: 4% Premium deposit: $220,676 Minimum premium is 75% of deposit

6. Type of contract: Second Aggregate Excess of Loss Reinsurance

Lines reinsured:	All business written by the company
Company's retention:	110% of net written premium
Coverage:	100% of the amount by which the aggregate of the company's losses, including loss adjustment expenses, exceed the retention
Reinsurance premium:	Rate: 1.5% Premium deposit: $82,754 Minimum premium is 75% of deposit

III. FINANCIAL DATA

The following financial statements reflect the financial condition of the company as reported to the Commissioner of Insurance in the December 31, 2009, annual statement. Adjustments made as a result of the examination are noted at the end of this section in the area captioned "Reconciliation of Policyholders' Surplus."

Wausau-Stettin Mutual Insurance Company
Statement of Assets and Liabilities
As of December 31, 2009

Assets	Ledger	Nonledger	Not Admitted	Net Admitted
Cash on hand	$ 500	$	$	$ 500
Cash in checking	340,061			340,061
Cash deposited at interest	7,473,551			7,473,551
Bonds	2,125,290			2,125,290
Stocks and mutual fund investments	1,396,789			1,396,789
Real estate	1,969,971			1,969,971
Premiums, agents' balances and installments:				
In course of collection	13,874			13,874
Deferred and not yet due	1,020,360			1,020,360
Investment income accrued		58,575		58,575
Reinsurance recoverable on paid losses and LAE	19,629			19,629
Electronic data processing equipment	44,178			44,178
Fire dues recoverable	36			36
Furniture and fixtures	239,045		239,045	
Totals	$14,643,284	$58,575	$239,045	$14,462,814

Liabilities and Surplus

Net unpaid losses	$ 541,690
Unpaid loss adjustment expenses	33,150
Commissions payable	392,689
Federal income taxes payable	26,126
Unearned premiums	3,262,368
Reinsurance payable	33,332
Amounts withheld for the account of others	4,613
Payroll taxes payable (employer's portion)	384
Other liabilities:	
Expense-related:	
Accounts payable	82,131
Nonexpense-related:	
Premiums received in advance	76,439
Rent security deposits	7,601
Total liabilities	4,460,523
Policyholders' surplus	10,002,291
Total Liabilities and Surplus	$14,462,814

Wausau-Stettin Mutual Insurance Company
Statement of Operations
For the Year 2009

Net premiums and assessments earned		$4,987,143
Deduct:		
Net losses incurred	$1,277,084	
Net loss adjustment expenses incurred	724,679	
Net other underwriting expenses incurred	2,060,728	
Total losses and expenses incurred		4,062,491
Net underwriting gain (loss)		924,652
Net investment income:		
Net investment income earned	279,818	
Net realized capital gains (losses)	858	
Total investment gain (loss)		280,676
Other income (expense):		
Installment and policy fees		40,629
Net income (loss) before federal income taxes		1,245,957
Federal income taxes incurred		99,250
Net Income (Loss)		$ 846,707

Wausau-Stettin Mutual Insurance Company
Reconciliation and Analysis of Surplus as Regards Policyholders
For the Five-Year Period Ending December 31, 2009

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

	2009	2008	2007	2006	2005
Surplus, beginning of year	$9,116,488	$9,363,950	$8,677,413	$7,704,006	$6,951,057
Net income	846,707	155,305	695,243	945,437	711,984
Net unrealized capital gain or (loss)	87,752	(268,237)	37,957	23,542	36,039
Change in nonadmitted assets	(48,656)	(134,530)	(46,663)	4,428	4,926
Surplus, End of Year	$10,002,291	$9,116,488	$9,363,950	$8,677,413	$7,704,006

Reconciliation of Policyholders' Surplus

The examination resulted in no adjustments to policyholders' surplus. The amount reported by the company as of December 31, 2009, is accepted.

IV. SUMMARY OF EXAMINATION RESULTS

Compliance with Prior Examination Report Recommendations

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

1. Agent Listing—It is recommended that company report to the commissioner all appointments, renewals and terminations of insurance agents, pursuant to s. 628.11, Wis. Stat.

   Action—Compliance

2. Reinsurance Program—It is recommended that the company review the current reinsurance program and, at a minimum, define procedures to be followed regarding the cessions of facultative risks and the submissions of reinsurance claims.

   Action—Compliance

3. Conflict of Interest—It is recommended that the company receive conflict of interest questionnaires from all directors each year during a director's term.

   Action—Compliance

4. Underwriting—It is recommended that the company comply with s. 612.31 (4), Wis. Stat., and nonrenew inland marine coverage that is not supplementary to coverage of property in a fixed location.

   Action—Compliance

5. Underwriting—It is recommended that the company have policyholders under the Wausau book of business sign an undertaking statement, if one is not currently on file, pursuant to s. 612.52, Wis. Stat., and that the company retain those signed undertakings for as long as the policyholder remains with the company, pursuant to s. Ins 6.80, Wis. Adm. Code.

   Action—Compliance

6. Net Unpaid Losses—It is recommended that the company improve the accounting controls for reporting net unpaid losses.

   Action—Compliance

7. Unpaid Loss Adjusting Expenses—It is recommended that the company estimate unpaid loss adjustment expenses as a percentage of unpaid loss reserves, with the percentage based on the amount historically paid in loss adjustment expenses as a proportion of paid losses..

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

Current Examination Results

Agent Listing

OCI's list of agents for the company was compared to the company's agent list. All agents were properly reported to OCI. Section 628.11, Wis. Stat., requires that an insurer report to the commissioner all appointments, renewals of appointments, and all terminations of appointments of insurance agents. The company is reporting to the commissioner all appointments, renewals and terminations of insurance agents pursuant to s. 628.11, Wis. Stat.

Reinsurance Program

During the review of the company's reinsurance program, the examiners noted that the company was no longer selecting reinsurance at the discretion of a former employee and now had a written policy approved by the board of directors to determine ceding. Second, the company has been claiming coverage for all claims under class B of the reinsurance contract. The company, however, has not been consistent in monitoring the reports provided by the reinsurer and verifying that their records match with the reinsurer's. See the section of this report captioned "Net Unpaid Losses" for more discussion.

Corporate Records

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

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

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

Conflict of Interest

In accordance with a directive of the Commissioner of Insurance, each company is required to establish a procedure for the disclosure to its board of directors of any material interest or affiliation on the part of its officers, directors, or key employees which conflicts or is likely to conflict with the official duties of such person. A part of this procedure is the annual completion of a conflict of interest questionnaire by the appropriate persons. The company has adopted such a procedure for disclosing potential conflicts of interest. Conflict of interest questionnaires were reviewed for the period under examination with no apparent conflicts being noted.

Fidelity Bond and Other Insurance

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

Type of Coverage	Coverage Limits
Fidelity bond	$ 350,000
Worker's compensation:	
Employee injury	Statutory
Employee liability:	
Bodily injury by accident	500,000 each accident
Bodily injury by disease	500,000 policy limit
Bodily injury by disease	500,000 each employee
Businessowners policy	
Liability	1,000,000 each occurrence
Medical expense	5,000 per person
Premises	
Building	1,910,000
Business personal property	206,000
Off-premises personal property	5,000
Rental damages	50,000
Business income	12-month actual loss sustained
Business auto	
Combined single limit	1,000,000
Medical expense	10,000 per person
Uninsured/underinsured	500,000 limit
Collision and comprehensive	1,000 deductible
Commercial umbrella	
Each occurrence	$4,000,000
General aggregate	4,000,000
Employment practices	500,000
Insurance company professional liability (A)	2,000,000 each claim
	2,000,000 aggregate for policy period
Directors and officers (B)	2,000,000 each claim
	2,000,000 aggregate for policy period
Total for (A) and (B)	2,000,000 aggregate for policy period

Underwriting

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

The company has a formal inspection procedure for both new and renewal business. All new applications and renewal business (as needed) is inspected by underwriting staff who are independent of the risk under consideration and review. All applications are properly signed.

Claims Adjusting

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

Accounts and Records

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

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

An extensive review was made of income and disbursement items. Cash receipts were traced from source records and the proper recording and eventual deposit thereof ascertained. Negotiated checks issued during the period under examination were reviewed, test checked for proper endorsement, and traced to cash records. The verification of assets and determination of liabilities were made as of December 31, 2009.

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

EDP Environment

Company personnel were interviewed with respect to the company's electronic data processing environment. Access to the computers is limited to people authorized to use the computers. Company personnel back up the computers daily and the backed-up data is kept off-site.

The company has manuals or on-line access documenting the use of its software and outlining the steps to complete specific tasks. Technical assistance is also available over the Internet and over a customer service call center. The technical assistance aids in the continuity of operations by providing instructions for seldom-used applications or when staff turnover occurs.

Business Continuity Plan

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

Invested Assets

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

(1) Securities kept under a custodial agreement or trust arrangement with a bank or banking and trust company may be issued in the name of a nominee of the bank or banking and trust company; and

(2) Any insurer may acquire and hold securities in bearer form.

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

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

The company is in compliance with these requirements.

Investment Rule Compliance

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

1.	Liabilities plus $300,000	$4,760,523
2.	Liabilities plus 33% of gross premiums written	6,627,428
3.	Liabilities plus 50% of net premiums written	6,965,424
4.	Amount required (greater of 1, 2, or 3)	6,965,424
5.	Amount of Type 1 investments as of 12/31/2009	10,133,106
6.	Excess or (deficiency)	$ 3,167,682

The company has sufficient Type 1 investments.

ASSETS

Cash and Invested Cash **$7,814,112**

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

Cash in company's office	$ 500
Cash deposited in banks—checking accounts	340,061
Cash deposited in banks at interest	7,473,551
Total	$7,814,112

Cash in the company's office at year-end represents the company's petty cash fund. A physical count was not made by the examiners during the course of the examination and the balance reconciled to year-end and CPA worksheets.

Cash deposited in banks subject to the company's check and withdrawal consists of five accounts maintained in one bank. Verification of checking account balances was made when the CPA obtained confirmations directly from the depository and reconciling the amounts shown thereon to company records.

Cash deposited in banks represents the aggregate of 37 deposits in 32 depositories. Deposits that exceeded the FDIC limits were protected by collateral provided by the bank. Deposits were verified by the CPA by direct correspondence with the respective depositories and by an actual count and inspection of certificates and/or passbooks. Interest received during the year 2009 totaled $265,308 and was verified to company cash records. Rates of interest earned on cash deposits ranged from 1.39% to 5.20%. Accrued interest on cash deposits totaled $28,488 at year-end.

Book Value of Bonds **$2,125,290**

The above asset consists of the aggregate book value of bonds held by the company as of December 31, 2009. Bonds owned by the company are held under a custodial agreement by a qualified bank and trust.

The company's investment in bonds was in conformance with Wisconsin Statutes and the rules of the Commissioner of Insurance as regards investments made by town mutual insurers.

Interest received during 2009 on bonds amounted to $105,550 and was traced to cash receipts records. Accrued interest of $30,087 at December 31, 2009, was checked and allowed as a nonledger asset.

Stocks and Mutual Fund Investments **$1,396,789**

The above asset consists of the aggregate market value of stocks and mutual funds held by the company as of December 31, 2009. Stocks owned by the company are held under a custodial agreement by a qualified bank and trust or located in the company's safety deposit box.

Stock certificates held by the company were confirmed by the CPA. The company's investment in stocks and mutual funds was in conformance with Wisconsin Statutes and the rules of the Commissioner of Insurance as regards investments made by town mutual insurers.

Dividends received during 2009 on stocks and mutual funds amounted to $23,575 and were traced to cash receipts records. There were no accrued dividends as of December 31, 2009.

Book Value of Real Estate **$1,969,971**

The above amount represents the company's investment in real estate, net of depreciation, as of December 31, 2009. The company's real estate holdings consisted of its home office.

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

Premiums, Agents' Balances in Course of Collection **$13,874**

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

Premiums Deferred and Not Yet Due **$1,020,360**

This asset represents modal premium installments (such as monthly, quarterly, etc.) that are not yet due. A review of a sample from the company's detailed list of deferred premiums verified the accuracy of this asset.

Investment Income Accrued **$58,575**

Interest due and accrued on the various assets of the company at December 31, 2009, consists of the following:

Cash at interest	$28,488
Bonds	30,087
Total	$58,575

Reinsurance Recoverable on Paid Losses and LAE **$19,629**

The above asset represents recoveries due to the company from reinsurance on losses and loss adjusting expenses which were paid on or prior to December 31, 2009. A review of year-end accountings with the reinsurer verified the above asset.

Electronic Data Processing Equipment **$44,178**

The above balance consists of computer hardware and operating system software, net of depreciation as of December 31, 2009. A review of receipts and other documentation verified the balance. Non-operating system software was properly nonadmitted.

Fire Dues Recoverable **$36**

This asset represents the amount overpaid to the state of Wisconsin for 2009 fire dues. The examiners reviewed the company's fire department dues calculation and found this asset to be correctly calculated. The actual amount paid was verified to the cash disbursement records.

Furniture and Fixtures **$0**

This asset consists of $239,045 of furniture and equipment and nonadmitted software owned by the company at December 31, 2009. In accordance with annual statement requirements, this amount has been reported as a nonadmitted asset, thus the balance shown above is $0. During the examination it was noted in Exhibit II – Analysis of Nonadmitted Assets on Page 8, Line 3, that the Furniture and Fixtures total of $239,045 includes $108,113 of software costs (net of accumulated amortization). The $108,113 should be presented on line 4a. Software. Line 3 should then total $130,932. It is recommended that the company report separate nonadmitted assets on their proper lines.

LIABILITIES AND SURPLUS

Net Unpaid Losses **$541,690**

This liability represents losses incurred on or prior to December 31, 2009, that remained unpaid as of that date. The examiners reviewed the reasonableness of this liability by totaling actual loss payments made subsequent to December 31, 2009, with incurred dates in 2009 and prior years. To the actual paid loss figure was added an estimated amount for 2009 and prior losses remaining unpaid at the time of the examination. The examiners' development of unpaid losses is compared with the amount estimated by the company in the following schedule.

	Company Estimate	Examiners' Development	Difference
Incurred but unpaid losses	$1,923,262	$1,849,099	$74,173
Less: Reinsurance recoverable on unpaid losses	1,381,572	1,382,667	(1,095)
Net Unpaid Losses	$ 541,690	$ 466,432	$75,258

The above difference of $75,258 was not considered material for purposes of this examination.

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

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

The examiners noted that the company did not always have consistency between the reserves on the company’s books and reserves shown on the reports provided by WRC concerning those reserves. It was also noted in the review of reinsurance that the company had not always had a consistency between reports of risks ceded to WRC and those reported by WRC to the company.

It is recommended that the company develop controls that will allow it to assure that reinsured loss reserves and policy cessions are consistent with the same reports of the company's reinsurer.

Unpaid Loss Adjustment Expenses **$33,150**

This liability represents the company's estimate of amounts necessary to settle losses which were incurred prior to December 31, 2009, but which remained unpaid as of year-end. The methodology used by the company in establishing this liability is a flat rate estimate of $650 per unpaid claim. The examiners noted that the 2009 income statement reported that total loss adjustment expense (LAE) of $724,679 was about 56.7% of the reported net losses of $1,277,084, whereas the year-end LAE reserve of $33,150 was about 6.1% of the year-end loss reserve of $541,690.

The CPA reviewed three possible estimates (2009 average cost per claim, 2006-2008 average cost, or one half of 2009 average cost) and accepted this last, lowest estimate of the company as reasonable. The Unpaid LAE rate chosen implies that half of the average cost of each open claim has already been incurred by the company. Because the prior examination had recommended that the company not use a flat rate for estimating unpaid LAE, the current examiners have gone into greater detail in understanding the company's treatment of LAE.

The examiners learned that the company's cost allocation methods allocate total expenses to the three major business functions: 45% to loss adjusting, 45% to underwriting and 10% to investments. Because of the company's methodology, the total annual loss adjusting expense will vary substantially less than the number of claims or total loss dollars will vary. Many companies allocate a lower percentage to loss adjusting and a higher percentage to underwriting. The company did not have information available which documented the basis for its cost allocation methodology.

For the purposes of this examination, the examiners will accept the total loss and LAE reserves as being materially adequate. However, the company needs to reevaluate its cost model for the allocation of company labor and overhead to loss adjusting, underwriting and investing categories.

It is recommended that the company do a basic cost study to determine a method of allocating costs among Loss Adjusting, Other Underwriting and Investing that reasonably reflects the costs that the company is incurring in each area, and develop estimates from that method to determine Unpaid LAE Reserves.

Commissions Payable **$392,689**

This liability represents the commissions payable to agents as of December 31, 2009. The examiners reviewed the company's commission calculation and found the liability to be reasonably stated.

Federal Income Taxes Payable **$26,126**

This liability represents the balance payable at year-end for federal income taxes incurred prior to December 31, 2009. The examiners reviewed the company's 2009 tax return and verified the reasonableness of the amounts paid to cash disbursement records to verify the reasonableness of this liability.

Unearned Premiums **$3,262,368**

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

Reinsurance Payable **$33,332**

This liability consists of amounts due to the company's reinsurer at December 31, 2009, relating to transactions which occurred on or prior to that date. These amounts consist of the estimated payable at year-end based upon the reinsurer's adjusted calculations and the amount payable for deferred premium. The review of the subsequent payment verified the amount reported.

Amounts Withheld for the Account of Others **$4,613**

This liability represents employee payroll deductions in the possession of the company at December 31, 2009. Supporting records and subsequent cash disbursements verified this item.

Payroll Taxes Payable **$384**

This liability represents the company's portion of payroll taxes incurred prior to December 31, 2009, which had not yet been paid. Supporting records and subsequent cash disbursements verified this item.

Accounts Payable **$82,131**

This liability consists of accrued wages and benefits and other bills payable. The balance was agreed to the supporting reports and a sample of subsequent payments were selected from these reports.

Premiums Received in Advance **$76,439**

This liability represents the total premiums received prior to year-end for policies with effective dates after December 31, 2009. The examiners reviewed 2009 premium and cash receipt records to verify the accuracy of this liability.

Rent Security Deposit **$7,601**

This liability is a combination of a security deposit and leasehold improvements liability. The leasehold improvements paid for by the tenant are being amortized over five years. Any improvements that have not been amortized would be returned to the tenant in the event that WSMIC cancels the lease. The examiners reviewed 2009 premium and cash receipt records to verify the accuracy of this liability.

V. CONCLUSION

Wausau-Stettin Mutual Insurance Company has maintained its very strong financial position over the past five years, despite 2008's underwriting losses. Surplus has increased 44% since the prior examination. The company has reported underwriting income in four of the past five years and net income in each of the past five. Investment income has been generally strong, though unrealized capital losses in 2008 caused a small decrease in surplus. The underwriting expense ratio has seen a small increase in 2009 over the prior four years, but remains low compared to the town mutual industry.

The company now serves 16 counties in central Wisconsin. Since December 31, 2004, it added Price, Rusk and Chippewa counties in 2005, and Forest and Oneida counties to its territory, both in 2010. Policies in force have increased 2.3% since the last examination, though 2006 had the peak number of policies. Despite the small increase in policies, gross and net premium written have increased by 9.6% and 15%, respectively, as the company has increased average policy size and ceded a smaller portion of reinsurance.

No adjustments to surplus were made as a result of this examination. The examination resulted in three recommendations, as summarized in the "Summary of Comments and Recommendations" section of this report.

VI. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 22 - Furniture and Fixtures—It is recommended that the company report separate nonadmitted assets on their proper lines.

2. Page 24 - Net Unpaid Losses—It is recommended that the company develop controls that will allow it to assure that reinsured loss reserves and policy cessions are consistent with the same reports of the company's reinsurer.

3. Page 25 Unpaid Loss Adjustment Expenses—It is recommended that the company do a basic cost study to determine a method of allocating costs among Loss Adjusting, Other Underwriting and Investing that reasonably reflects the costs that the company is incurring in each area, and develop estimates from that method to determine Unpaid LAE Reserves.

VII. ACKNOWLEDGMENT

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

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

Respectfully submitted,

David Jensen
Examiner-in-Charge