

Report  
of the  
Examination of  
Wausau Underwriters Insurance Company  
Wausau, Wisconsin  
As of December 31, 2013

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# State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

Scott Walker, Governor  
Theodore K. Nickel, Commissioner

Wisconsin.gov

May 21, 2015

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Honorable Theodore K. Nickel  
Commissioner of Insurance  
State of Wisconsin  
125 South Webster Street  
Madison, Wisconsin 53703

Commissioner:

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

WAUSAU UNDERWRITERS INSURANCE COMPANY  
Wausau, Wisconsin

and this report is respectfully submitted.

## I. INTRODUCTION

The previous examination of Wausau Underwriters Insurance Company (WUIC or the company) was conducted in 2010 as of December 31, 2009. The current examination covered the intervening period ending December 31, 2013, and included a review of such 2014 transactions as deemed necessary to complete the examination.

The examination was conducted using a risk-focused approach in accordance with the NAIC Financial Condition Examiners Handbook, which sets forth guidance for planning and performing an examination to evaluate the financial condition and identify prospective risks of an insurer. This approach includes the obtaining of information about the company including corporate governance, the identification and assessment of inherent risks within the company, and the evaluation of system controls and procedures used by the company to mitigate those risks. The examination also included an assessment of the principles used and significant estimates made by management, as well as an evaluation of the overall financial statement

presentation and management's compliance with statutory accounting principles, annual statement instructions, and Wisconsin laws and regulations.

The examination of the company was conducted concurrently with the examination of Liberty Mutual Insurance Company (LMIC) and the Liberty Mutual Insurance Company Reinsurance Pool (Liberty Pool). The Commonwealth of Massachusetts Division of Insurance acted in the capacity as the lead state for the coordinated exams. Work performed by the Massachusetts Division of Insurance was reviewed and relied on where deemed appropriate.

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

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

Emphasis was placed on the audit of those areas of the company's operations accorded a high priority by the examiner-in-charge when planning the examination. Special attention was given to the action taken by the company to satisfy the recommendations and comments made in the previous examination report. The company is annually audited by an independent public accounting firm as prescribed by s. Ins 50.05, Wis. Adm. Code. An integral part of this compliance examination was the review of the independent accountant's work papers. Based on the results of the review of these work papers, alternative or additional examination steps deemed necessary for the completion of this examination were performed. The examination work papers contain documentation with respect to the alternative or additional examination steps performed during the course of the examination.

In addition to auditing, the public accounting firm performs non-auditing services for the Liberty Mutual Group including actuarial services, advisory services, agreed-upon

procedures, employee benefit plan audits, peer reviews, iXBRL tagging, service organization control reports, and tax services. These services were preapproved by the Liberty Mutual Holding Company Inc. (LMHC) Audit Committee in compliance with s. Ins 50.08 (7), Wis. Adm. Code.

### **Independent Actuary's Review**

Since January 1, 1999, the company has been a participant in a reinsurance pooling agreement with LMIC and certain of its property and casualty insurance subsidiaries. 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.

PricewaterhouseCoopers LLP, under contract with the Massachusetts Division of Insurance, reviewed the adequacy of the company's loss reserves and loss adjustment expense reserves, as a function of its participation in the pool. The results of the firm's work were reported to the examiner-in-charge. As deemed appropriate, reference is made in this report to the actuarial firm's conclusion.

## II. HISTORY AND PLAN OF OPERATION

WUIC, a stock property and casualty company operating under ch. 611, Wis. Stat., is the ultimate successor to the Select Risk Mutual Insurance Company. Select Risk Mutual Insurance Company was incorporated under the laws of the state of Arkansas in August 1954. In 1959, Select Risk Insurance Company was incorporated in Arkansas to effect a conversion of Select Risk Mutual Insurance Company from a mutual company to a stock company. This conversion was completed on July 1, 1959. The corporate title of this predecessor company underwent numerous changes over its history. It was changed on October 1, 1959, to Southern Grange Insurance Company; on February 11, 1963, to VICO Insurance Company; on November 17, 1964, to Volkswagen Insurance Company; and on March 15, 1978, to Wausau Underwriters Insurance Company.

Wausau Service Corporation, a direct wholly owned subsidiary of EMPLOYERS INSURANCE OF WAUSAU A Mutual Company (Employers), now known as Employers Insurance Company of Wausau (EICOW), purchased financial control of this company from VICO Corporation, of Englewood Cliffs, New Jersey, on December 30, 1977.

The present corporation itself was organized in Wisconsin on September 27, 1979, under the temporary title "Wausau Insurance Company A" to effect a change in the corporate domicile of WUIC from Arkansas to Wisconsin. On December 31, 1979, WUIC merged into Wausau Insurance Company A. This merger transaction dissolved the existence of the original WUIC as an independent entity and cancelled all of its issued and outstanding common stock. The surviving Wausau Insurance Company A changed its name to WUIC on January 11, 1980.

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 a party to the affiliation agreement. Within the context of this agreement, and certain subsequent agreements, NMIC exercised control of Employers 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 WUIC were ceded and from which all net premiums written were assumed.

The directors of Employers continued to be elected by the policyholders of Employers, as required by s. 611.53 (2), Wis. Stat., but election and reelection of nominees associated with NMIC on the Employers 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 WUIC, 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 Employers. Employers 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 Employers 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 Employers 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, Employers 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 the Office of the Commissioner of Insurance (OCI), 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 WUIC. Thus, the company became an affiliate of LMIC and its current ultimate parent, LMHC.

On September 4, 2009, as part of a reorganization, LMIC dissolved Wausau Service Corporation and transferred the company's stock in its subsidiaries, including WUIC, to LMIC. As

discussed later in this report, in 2001 Employers restructured into a Mutual Holding Company and became a stock insurer named Employers Insurance Company of Wausau.

As of December 31, 2013, the company's capitalization included \$4,500,000 in the form of 11,250 common shares (of 20,000 authorized) with a par value of \$400 per share, and \$51,102,304 of paid-in and contributed surplus. The following schedule reflects the activity in capital stock and paid-in surplus since the incorporation of the company:

<b>Year</b>	<b>Authorized Common Shares</b>	<b>Issued and Outstanding</b>	<b>Par Value Per Share</b>	<b>Gross Capital Paid Up</b>	<b>Gross Paid-In and Contributed Surplus</b>
1979			N/A	\$	\$21,690,256
1980	10,000	6,000	\$400	2,400,000	(230,000)
1982					(8,000,000)
1984		250		100,000	9,900,000
1985					10,000,000
1993		2,500		1,000,000	(1,000,000)
1995					20,000,000
1996					25,000,000
2002	10,000	2,500		1,000,000	
2006					(2,212,616)
2013	_____	_____	_____	_____	<u>(24,045,336)</u>
12/31/2013	<u>20,000</u>	<u>11,250</u>	<u>\$400</u>	<u>\$4,500,000</u>	<u>\$51,102,304</u>

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."

WUIC's support services are provided from the home office owned by LMIC in Boston, Massachusetts, and the home office owned by EICOW in Wausau, Wisconsin, as well as through a network of leased office facilities in 88 locations throughout the United States.



As of the examination date, the company is licensed in all 50 states, the District of Columbia, Puerto Rico, U.S. Virgin Islands, and in various other foreign countries.

In 2013, the company wrote business in every jurisdiction in which it is licensed in the United States, as well as in foreign countries and territories. The distribution of direct premiums written in 2013 by state or other jurisdiction was as follows:

California	\$ 77,210,310	25.49%
Texas	17,753,725	5.86
Illinois	15,367,393	5.07
Wisconsin	13,487,199	4.45
New York	13,374,664	4.42
Florida	11,162,289	3.69
Pennsylvania	11,066,137	3.65
All others	<u>143,456,867</u>	<u>47.37</u>
Total	<u>\$302,878,584</u>	<u>100.00%</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
- (b) Ocean Marine
- (c) Disability
- (d) Liability and Incidental Medical Expense
- (e) Automobile
- (f) Fidelity
- (g) Surety
- (j) Credit
- (k) Worker's Compensation
- (l) Legal Expense
- (n) Miscellaneous
- (o) Aircraft

As of December 31, 2013, 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.

<b>Product Line</b>	<b>Commission Rates</b>
Worker's 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 2013. The growth of the company is discussed in the "Financial Data" section of this report.

<b>Line of Business</b>	<b>Direct Premium</b>	<b>Reinsurance Assumed</b>	<b>Reinsurance Ceded</b>	<b>Net Premium</b>
Fire	\$ 90,519	\$ (636,389)	\$ 90,519	\$ (636,389)
Allied lines	97,861	(287,748)	97,861	(287,748)
Farmowners multiple peril	0	(681)	0	(681)
Homeowner's multiple peril	0	(4,753,370)	0	(4,753,370)
Commercial multiple peril	30,890,885	(630,049)	30,890,885	(630,049)
Ocean marine	0	(89,537)	0	(89,537)
Inland marine	105,462	(228,652)	105,462	(228,652)
Medical malpractice – occurrence	0	(82,756)	0	(82,756)
Medical malpractice – claims made	0	(6,187)	0	(6,187)
Earthquake	224,334	(99,731)	224,334	(99,731)
Other accident and health	0	(240)	0	(240)
Worker's compensation	180,202,336	(787,219)	180,202,336	(787,219)
Other liability – occurrence	40,920,163	(1,582,280)	40,920,163	(1,582,280)
Other liability – claims made	0	(682,799)	0	(682,799)
Excess worker's compensation	0	(160,424)	0	(160,424)
Products liability – occurrence	5,415,349	(336,004)	5,415,319	(336,004)
Products liability – claims made	0	(5,370)	0	(5,370)
Private passenger auto liability	0	(5,963,040)		(5,963,040)
Commercial auto liability	35,804,138	(766,265)	35,804,138	(766,265)
Auto physical damage	8,407,441	(4,144,698)	8,407,441	(4,144,698)
Aircraft (all perils)	0	(36,788)	0	(36,788)
Fidelity	409,280	(22,121)	409,280	(22,121)
Surety	90	(22,223)	90	(22,223)
Burglary and theft	302,245	(790)	302,245	(790)
Boiler and machinery	8,481	(54,650)	8,481	(54,650)
Credit	0	(3,816)	0	(3,816)
Warranty	0	(22,284)	0	(22,284)
Reinsurance – nonproportional assumed property	0	(99,521)	0	(99,521)
Reinsurance – nonproportional assumed liability	<u>0</u>	<u>(16,322)</u>	<u>0</u>	<u>(16,322)</u>
<b>Total All Lines</b>	<b><u>\$302,878,584</u></b>	<b><u>\$(21,521,954)</u></b>	<b><u>\$302,878,584</u></b>	<b><u>\$(21,521,954)</u></b>

### III. MANAGEMENT AND CONTROL

#### Board of Directors

The board of directors consists of seven members. All 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:

<b>Name and Residence</b>	<b>Principal Occupation</b>	<b>Term Expires</b>
Kristen M. Bessette Boxford, Massachusetts	Vice President and Chief Actuary of Commercial Insurance Liberty Mutual Group	2015
J. Paul Condrin, III Dover, Massachusetts	Executive Vice President and President, Commercial Insurance Liberty Mutual Group	2015
John D. Doyle Southborough, Massachusetts	Vice President and Comptroller Liberty Mutual Group	2015
Michael J. Fallon Bedford, Massachusetts	Senior Vice President and Chief Financial Officer, Commercial Insurance Liberty Mutual Group	2015
Michael H. Hughes Boston, Massachusetts	President of Business Insurance Segment of Commercial Insurance Liberty Mutual Group	2015
Dexter R. Legg Portsmouth, New Hampshire	Vice President and Secretary Liberty Mutual Group	2015
Elizabeth J. Morahan Newtonville, Massachusetts	Vice President and General Counsel of Commercial Insurance Liberty Mutual Group	2015

## Officers of the Company

The senior officers elected by the board of directors or appointed by the elected officers and serving at the time of fieldwork for this examination are listed below.

Name	Office	2013 Compensation*
J. Paul Condrin, III	President and Chief Executive Officer	\$0
A. Alexander Fontanes	Vice President and Chief Investment Officer	0
Michael J. Fallon	Vice President and Chief Financial Officer	0
Laurance H. Yahia	Vice President and Treasurer	0
John D. Doyle	Vice President and Comptroller	0
Dexter R. Legg	Vice President and Secretary	0
Kathryn M. Winn	Fmr. Vice President and General Counsel	0
Elizabeth J. Morahan**	Vice President and General Counsel	0

\* The 2013 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%. This includes only the allocated amount of incurred expenses relating to LMIC's "Executive Partnership Plan" and not its associated liability.

\*\* New officer elected June 16, 2014.

## 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 company 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

Francis A. Doyle, Chair  
Nicholas M. Donofrio  
Martin P. Slark  
Eric A. Spiegel  
William C. Van Faasen  
Annette M. Verschuren

### Risk Committee

Annette M. Verschuren, Chair  
Charles I. Clough, Jr.  
David H. Long  
Myrtle S. Potter  
Ellen A. Rudnick  
Martin P. Slark

### Investment Committee

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

### Compensation Committee

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

**Contributions Committee**

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

**Nominating and Governance  
Committee**

William C. Van Faasen, Chair  
Nicolas M. Donofrio  
Francis A. Doyle  
Ellen A. Rudnick

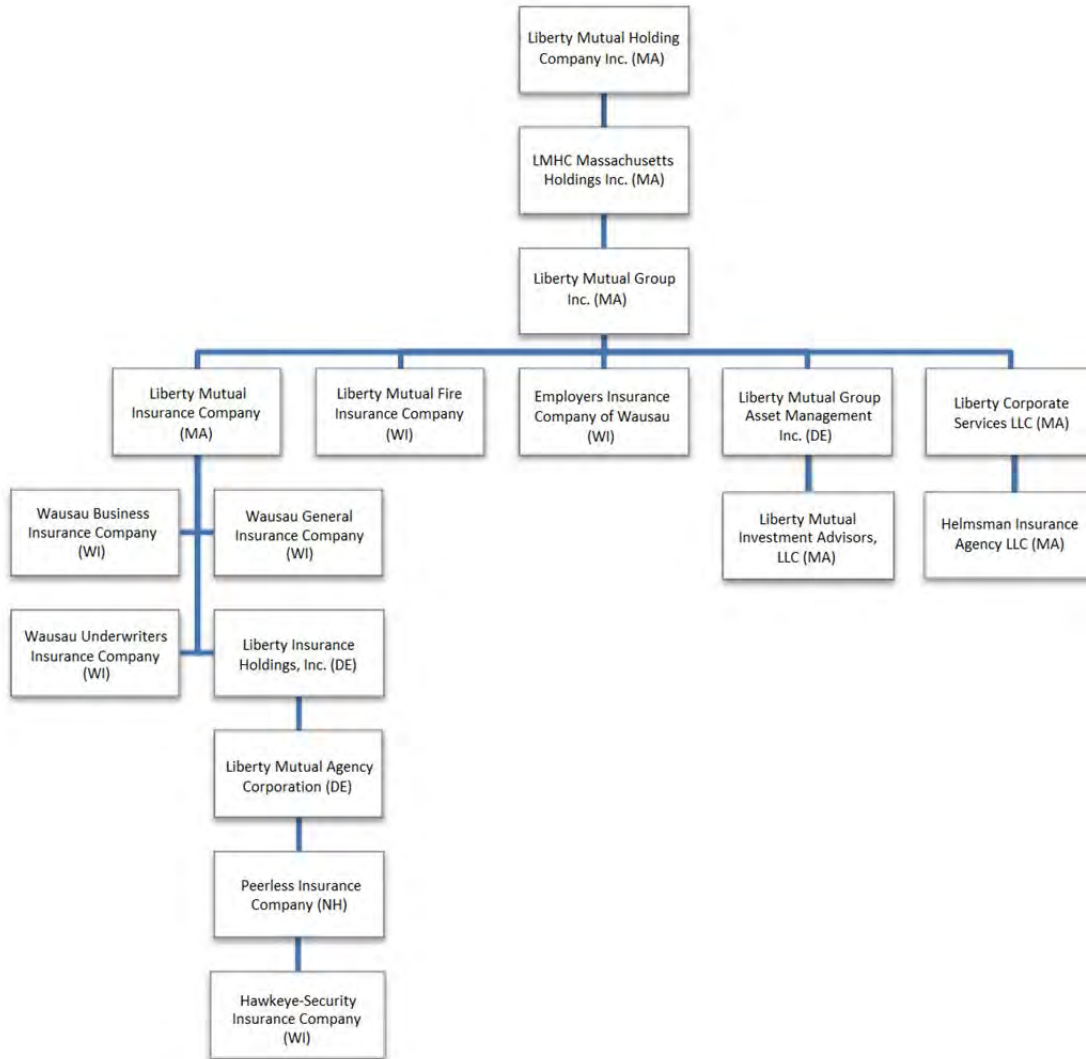
**Executive Committee**

David H. Long, Chair  
Francis A. Doyle  
Thomas J. May  
Ellen A. Rudnick  
William C. Van Faasen  
Annette M. Verschuren

#### IV. AFFILIATED COMPANIES

WUIC is a member of a holding company system. The organizational chart below depicts the relationships among the affiliates in the group. A brief description of the significant affiliates follows the organizational chart.

**Organizational Chart  
As of December 31, 2013**



Note that the above organizational chart is a simplified version of the complete organizational chart due to the size and complexity of the holding company system. The chart includes only significant affiliates and ones that directly affect the operations of WUIC.

WUIC is a member of the Liberty Mutual Group, a multinational holding company system under the control of LMHC. As of December 31, 2013, LMHC exercised direct or indirect control of 247 legal entities, including 163 stock corporations, 68 limited liability companies, 3 mutual insurance companies, 4 Lloyds insurance companies, 1 reciprocal insurance company, 5 limited partnerships and 3 “other” entities. LMGI is a diversified international group of insurance companies offering a wide range of insurance products and services to businesses and individuals operating in 27 countries, with 57 property and casualty insurers, 1 life insurer, 7 insurance brokerages and agencies, and 9 providers of ancillary insurance-related services. Its international unit operates local companies to provide insurance products and services to small businesses and individuals in Argentina, Brazil, Chile, China (including Hong Kong), Colombia, Ecuador, Ireland, India, Poland, Portugal, Russia, Singapore, Spain, Thailand, Turkey, the United Kingdom, Venezuela and Vietnam. The other 173 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 makes 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 WUIC has a significant contractual or operational relationship. Written agreements with affiliates will be described following the summary of companies.

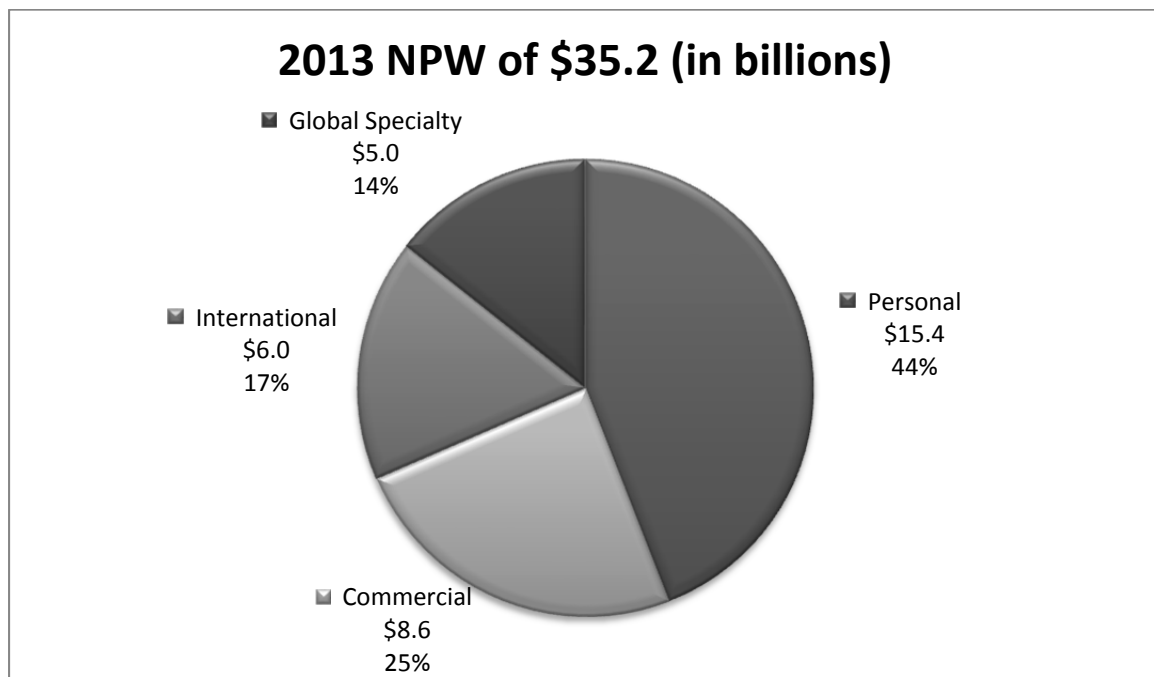
#### **Liberty Mutual Holding Company Inc.**

LMHC was incorporated under the laws of the Commonwealth of Massachusetts on November 28, 2001. LMHC serves as the ultimate holding company for the Liberty Mutual Group. It directly holds the stock of LMHC Massachusetts Holdings Inc. (LMHC-MA) and maintains headquarters in Boston, Massachusetts. LMHC employs more than 50,000 people in



approximately 900 offices worldwide, and operates primarily through four independent strategic business units (SBUs): Personal Insurance, Commercial Insurance, Liberty International, and Global Specialty. The holding company group also has a segment devoted to investment management of the insurers.

The following chart displays LMHC 2013 net premium written (NPW) by SBU.



#### **Personal Insurance**

This SBU includes all domestic personal lines of business including automobile, homeowner's and other types of property and casualty coverage to individuals in the United States. Personal Insurance is composed of two segments: Personal Lines and Safeco products. Personal Lines are distributed primarily by licensed captive sales representatives. The largest source of new business is through affinity groups such as employers, professional and alumni associations, credit unions, and other partnerships. Safeco personal insurance products are distributed nationally through a network of independent agents.

#### **Commercial Insurance**

This SBU offers a wide array of property and casualty, group benefits, and life insurance coverages through independent agents, brokers, benefit consultants, captive agents, and bank partners throughout the United States. Commercial Insurance is organized into four segments: Business Insurance; National Insurance; Liberty Mutual Benefits; and Other Commercial Insurance.

#### **Liberty International**

This SBU sells property, casualty, health, and life insurance products to individuals and businesses in four market segments: Latin America and

Iberia; Emerging Europe; Asia; and Large Emerging Markets. Private passenger automobile is the single largest line of business.

**Global Specialty**

Global Specialty is composed of commercial, specialty, surety, and reinsurance lines offered through three market segments: Liberty International Underwriters; Liberty Specialty Markets; and Liberty Mutual Surety.

As of December 31, 2013, Liberty Mutual Holding Company Inc. reported assets of \$121.3 billion, liabilities of \$102.3 billion, policyholders' equity of \$19.0 billion, and a net income of \$1.7 billion.

**LMHC Massachusetts Holdings Inc.**

LMHC-MA was incorporated under the laws of the Commonwealth of Massachusetts on November 28, 2001. LMHC-MA serves as an intermediate stock holding company within the mutual holding company system and directly holds the stock of LMGI. Headquarters are maintained in Boston, Massachusetts.

As of December 31, 2013, LMHC-MA reported assets of \$121.3 billion, liabilities of \$102.3 billion, policyholders' equity of \$19.0 billion, and a net income of \$1.7 billion.

**Liberty Mutual Group Inc.**

LMGI was incorporated under the laws of the Commonwealth of Massachusetts on November 28, 2001. The company serves as an intermediate stock holding company within the mutual holding company system. It directly holds the stock of LMIC, Liberty Mutual Fire Insurance Company (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. Headquarters are maintained in Boston, Massachusetts.

As of December 31, 2013, LMGI reported assets of \$121.3 billion, liabilities of \$102.3 billion, policyholders' equity of \$19.0 billion, and a net income of \$1.7 billion.

## **Significant Affiliates**

### **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. 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, Canada, and in various other foreign countries. Headquarters are maintained in Boston, Massachusetts. LMIC has a 50% net participation in the Liberty Pool.

As of December 31, 2013, LMIC reported admitted assets of \$44.5 billion, liabilities of \$29.4 billion, policyholders' surplus of \$15.1 billion, and a net income of \$507.4 million. LMIC was examined concurrently with WUIC as of December 31, 2013, and the results of that examination were expressed in a separate report issued by the Massachusetts Division of Insurance.

### **Liberty Mutual Fire Insurance Company**

LMFIC was incorporated under the laws of the Commonwealth of Massachusetts on October 31, 1908, and commenced business on November 5, 1908. LMFIC was redomiciled from the Commonwealth of Massachusetts to the state of Wisconsin effective December 22, 2005.

LMFIC's current business emphasis is on personal home and automobile lines, with distribution by personal lines captive sales representatives and independent agents. Commercial lines distribution is by independent agents. The company is licensed in all 50 states, the District of Columbia, and Puerto Rico. Headquarters are maintained in Boston, Massachusetts. The homeowner's multiple peril and personal automobile liability lines of business each provided approximately 25% of direct premiums written in 2013. LMFIC has an 8% net participation in the Liberty Pool.

As of December 31, 2013, LMFIC reported assets of \$5.6 billion, liabilities of \$4.4 billion, policyholders' surplus of \$1.2 billion, and a net income of \$87.5 million. LMFIC was

examined concurrently with WUIC as of December 31, 2013, and the results of that examination were expressed in a separate report.

### **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 from inception until September 1, 1979, when the company changed its name to EMPLOYERS INSURANCE OF WAUSAU A Mutual Company.

Effective on November 22, 2001, EMPLOYERS INSURANCE OF WAUSAU A Mutual Company was restructured into a mutual holding company pursuant to the provisions of ch. 644, Wis. Stat. This restructuring was approved by the Office of the Commissioner of Insurance (OCI) on November 19, 2001, following a public hearing, and was approved by vote of the policyholder members of Employers on November 20, 2001. Pursuant to the mutual holding company restructuring, Employers became a stock company, and was renamed 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, U.S. Virgin Islands, Canada, and in various other foreign countries. The worker's compensation line of business provided over 77% of direct premiums written in 2013. EICOW has an 8% net participation in the Liberty Pool.

As of December 31, 2013, EICOW reported assets of \$5.6 billion, liabilities of \$4.3 billion, policyholders' surplus of \$1.3 billion, and a net income of \$48.9 million. EICOW was examined concurrently with WUIC as of December 31, 2013, and the results of that examination were expressed in a separate report.

### **Hawkeye-Security Insurance Company**

Hawkeye-Security Insurance Company (HSIC) became affiliated with LMIC on May 10, 1999, as a result of LMIC's purchase of the company's parent, Guardian Royal

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 March 4, 2002. On August 15, 2003, the company was contributed to Peerless Insurance Company 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.

HSIC is a multiline property and casualty company licensed in 13 states. The worker's compensation line of business provided approximately 39% of direct premiums written in 2013. HSIC has a 0% net participation in the Liberty Pool. The corporation is a wholly owned subsidiary of Peerless Insurance Company.

As of December 31, 2013, HSIC reported admitted assets of \$14.2 million, liabilities of \$1.4 million, policyholders' surplus of \$12.8 million, and a net income of \$0.1 million. HSIC was examined concurrently with WUIC as of December 31, 2013, and the results of that examination were expressed in a separate report.

#### **Wausau Business Insurance Company**

Wausau Business Insurance Company (WBIC) was incorporated on June 30, 1987, as the Westwood Insurance Company, under the laws of the state of Illinois to effect a conversion of Cannery Exchange Subscribers, an Illinois reciprocal organized in 1907, to a stock company on July 1, 1987. Cannery Exchange Subscribers, the predecessor to WBIC, became affiliated with Employers on January 1, 1983, when all of the outstanding shares of its attorney-in-fact corporation, Lansing B. Warner, Inc., were purchased by Wausau Service Corporation. On September 1, 1990, the company redomiciled to Wisconsin and changed its name to that presently used.

WBIC is a multiline property and casualty company licensed in all 50 states and the District of Columbia. The worker's compensation line of business provided approximately 58% of direct premiums written in 2013. WBIC has a 0% net participation in the Liberty Pool. The corporation is a wholly owned subsidiary of LMIC.

As of December 31, 2013, WBIC reported admitted assets of \$43.6 million, liabilities of \$18.5 million, policyholders' surplus of \$25.1 million, and a net income of \$6.2 million. WBIC was examined concurrently with WUIC as of December 31, 2013, 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 the 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 was redomiciled from Illinois to Wisconsin effective August 1, 1999.

WGIC is a multiline property and casualty company licensed in 9 states. The worker's compensation line of business provided 100% of direct premiums written in 2013. WGIC has a 0% net participation in the Liberty Pool. The corporation is a wholly owned subsidiary of LMIC.

As of December 31, 2013, WGIC reported admitted assets of \$12.2 million, liabilities of \$0.7 million, policyholders' surplus of \$11.5 million, and a net income of \$0.6 million. WGIC was examined concurrently with WUIC as of December 31, 2013, 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 four 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, 2013, LMGAM reported assets of \$90.9 million, liabilities of \$53.0 million, equity of \$37.9 million, and a net income of \$6.8 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 brief summary of the other agreements and undertakings follows, arranged by counterparty and effective date. 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 12<sup>th</sup> day of April, June, September, December and March. Final settlement is due within 30 days of the receipt of invoice. The agreement has provisions for members entering or departing the group and provides for successors and assigns.

### **Liberty Mutual Insurance 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 WUIC 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 a majority control of WUIC'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 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.

#### Cash Management Agreement

Effective April 1, 2012, the company entered into a Cash Management Agreement with LMGAM. Under this agreement, LMGAM 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 LMGAM to jointly acquire short-term investments for the pool participants and each participant maintains a proportionate share ownership of the investments based on contributions to the account. LMGAM 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, 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 month. The agreement may be terminated: (i) at the end of any business day by the company upon prior written notice to LMGAM; or (ii) at any time by LMGAM upon 180 days' written notice to the company.

## V. REINSURANCE

The company's reinsurance portfolio and strategy is described below. All contracts reviewed contained proper insolvency provisions. Significant treaties and other risk transfer arrangements are summarized as follows.

### **Affiliated Pooling Agreement – Liberty Pool**

WUIC participates in a pooling arrangement with certain of its affiliates (the Liberty Pool). Effective January 1, 2013, the prior Peerless Pool was terminated. The Peerless Pool participants were added into the Liberty Pool which resulted in the addition of many affiliates and changes to the net pooling percentages for some of the participants. WUIC's participation changed from 0.4% to 0% of the net Liberty Pool. After external reinsurance, the pool participants cede 100% of their net premiums written, losses, loss adjustment expenses, underwriting expenses and related balance sheet categories to LMIC. 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 income taxes, are excluded from the pooled business. The table below shows the companies participating in the Liberty Pool.

Liberty Pool Participations:

	<b>Domicile</b>	<b>2013 Pool %</b>
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 Lloyd's 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 Lloyd's 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

	<b>Domicile</b>	<b>2013 Pool %</b>
Golden Eagle Insurance Corporation	NH	0%
Hawkeye-Security Insurance Company	WI	0
Insurance Company of Illinois	IL	0
Indiana Insurance Company	IN	0
Liberty Insurance Corporation	IL	0
Liberty Insurance Underwriters, Inc.	IL	0
Liberty County Mutual Insurance Company	TX	0
Liberty Lloyd's of Texas Insurance Company	TX	0
Liberty Mutual Mid-Atlantic Insurance Company	MA	0
Liberty Northwest Insurance Corporation	OR	0
Liberty Personal Insurance Company	MA	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
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

100% Quota Share Affiliated Companies:

Bridgefield Employers Insurance Company	FL	0
Bridgefield Casualty Insurance Company	FL	0
LM Property and Casualty Insurance Company	IN	0

Lines covered: All lines

Items included: Premiums written and earned, losses, loss adjustment expenses, underwriting expenses, salvage and subrogation recoveries, assessments, taxes and policyholder dividends

Effective: January 1, 2013

Termination: At any time with 120 days' written notice by any party or otherwise by mutual agreement. Each participant shall remain liable with respect to all cessions in force on the effective date of termination.

WBIC, WGIC, 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.<sup>1</sup>

### **Pool Reinsurance Program**

As previously discussed, the company participates in a pooling arrangement with certain affiliates (the Liberty Pool), which is administered by LMIC. A summary of the major reinsurance programs impacting the company is discussed in the concurrent examination report of EICOW.

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<sup>1</sup> 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, which is discussed in detail in the concurrent examination report of EICOW.

## **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, 2013, annual statement. 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. 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."

**Wausau Underwriters Insurance Company**  
**Assets**  
**As of December 31, 2013**

	<b>Assets</b>	<b>Nonadmitted Assets</b>	<b>Net Admitted Assets</b>
Bonds	\$57,197,497	\$0	\$57,197,497
Cash, cash equivalents, and short-term investments	337,300	0	337,300
Securities lending reinvested collateral assets	1,052,500	0	1,052,500
Investment income due and accrued	434,570	0	434,570
Premiums and considerations:			
Uncollected premiums and agents' balances in course of collection	(60)	0	(60)
Reinsurance:			
Amounts recoverable from reinsurers	34,923,563	0	34,923,563
Current federal and foreign income tax recoverable and interest thereon	3,728,939	0	3,728,939
Receivable from parent, subsidiaries, and affiliates	<u>2,070,001</u>	<u>0</u>	<u>2,070,001</u>
Total Assets	<u>\$99,744,310</u>	<u>\$0</u>	<u>\$99,744,310</u>

**Liabilities, Surplus, and Other Funds**  
**As of December 31, 2013**

Ceded reinsurance premiums payable (net of ceding commissions)		\$17,435,248
Payable to parent, subsidiaries, and affiliates		20,124,596
Payable for securities lending		<u>1,052,500</u>
Total liabilities		38,612,344
Common capital stock	\$ 4,500,000	
Gross paid in and contributed surplus	51,102,304	
Unassigned funds (surplus)	<u>5,529,662</u>	
Surplus as regards policyholders		<u>61,131,966</u>
Total Liabilities and Surplus		<u>\$99,744,310</u>

**Wausau Underwriters Insurance Company  
Summary of Operations  
For the Year 2013**

<b>Investment Income</b>		
Net investment income earned	\$3,469,167	
Net realized capital gains (losses)	<u>292,351</u>	
Net investment gain (loss)		\$ 3,761,518
<b>Other Income</b>		
Write-ins for miscellaneous income:		
Other income (expense)	<u>13,643</u>	
Total other income		<u>13,643</u>
Net income (loss) before dividends to policyholders and before federal and foreign income taxes		<u>3,775,161</u>
Net income (loss) after dividends to policyholders but before federal and foreign income taxes		3,775,161
Federal and foreign income taxes incurred		<u>(5,186,420)</u>
Net Income		<u>\$ 8,961,581</u>

**Wausau Underwriters Insurance Company**  
**Cash Flow**  
**For the Year 2013**

Premiums collected net of reinsurance		\$ (36,050,428)
Net investment income		4,756,431
Miscellaneous income		<u>(2,213,100)</u>
Total		(33,507,097)
Benefit- and loss-related payments	\$ 64,476,396	
Commissions, expenses paid, and aggregate write-ins for deductions	19,294,719	
Dividends paid to policyholders	13,308	
Federal and foreign income taxes paid (recovered)	<u>(2,174,635)</u>	
Total deductions		<u>81,609,788</u>
Net cash from operations		(115,116,885)
Proceeds from investments sold, matured, or repaid:		
Bonds	\$151,125,273	
Other invested assets	<u>19,564,719</u>	
Total investment proceeds		170,689,992
Cost of investments acquired (long-term only):		
Bonds	19,990,418	
Other invested assets	<u>12,140,329</u>	
Total investments acquired		<u>32,130,747</u>
Net cash from investments		138,559,245
Cash from financing and miscellaneous sources:		
Capital and paid in surplus, less treasury stock	(24,045,335)	
Dividends to stockholders	17,954,665	
Other cash provided (applied)	<u>15,399,194</u>	
Net cash from financing and miscellaneous sources		<u>(26,600,806)</u>
<b>Reconciliation:</b>		
Net change in cash, cash equivalents, and short-term investments		(3,158,446)
Cash, cash equivalents, and short-term investments:		
Beginning of year		<u>3,495,746</u>
End of Year		<u>\$ 337,300</u>



**Wausau Underwriters Insurance Company  
Compulsory and Security Surplus Calculation  
December 31, 2013**

Assets		\$99,744,310
Less security surplus of insurance subsidiaries		
Less liabilities		<u>38,612,344</u>
Adjusted surplus		61,131,966
Annual premium:		
Individual accident and health	\$ (240)	
Factor	<u>15%</u>	
Total		\$0
Group accident and health	0	
Factor	<u>10%</u>	
Total		0
Lines other than accident and health	(21,521,713)	
Factor	<u>20%</u>	
Total		<u>0</u>
Compulsory surplus (subject to a minimum of \$2 million)		<u>2,000,000</u>
Compulsory Surplus Excess (or Deficit)		<u>\$59,131,966</u>
Adjusted surplus (from above)		\$61,131,966
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 (or Deficit)		<u>\$58,331,966</u>

**Wausau Underwriters Insurance Company**  
**Analysis of Surplus**  
**For the Four-Year Period Ending December 31, 2013**

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

	<b>2013</b>	<b>2012</b>	<b>2011</b>	<b>2010</b>
Surplus, beginning of year	\$94,267,801	\$101,309,477	\$ 99,818,894	\$95,512,490
Net income	8,961,581	(2,493,243)	(1,278,572)	4,370,479
Change in net unrealized capital gains/losses	4,935	326,002	297,196	(165,944)
Change in net unrealized foreign exchange capital gains/losses	(105,008)	48,714	(23,714)	
Change in net deferred income tax	2,657	(6,133,460)	2,031,649	(91,454)
Change in non-admitted assets	454,634	3,879,451	(2,245,059)	119,517
Change in provision for reinsurance				
Cumulative effect of changes in accounting principles			39,943	
Paid in surplus	(24,045,335)			
Dividends to stockholders	(17,954,665)			
Write-ins for gains and (losses) in surplus:				
Other changes in surplus	(454,634)			73,806
SSAP 10R incremental change	_____	(2,669,140)	2,669,140	_____
Surplus, End of Year	<u>\$61,131,966</u>	<u>\$ 94,267,801</u>	<u>\$101,309,477</u>	<u>\$99,818,894</u>

**Wausau Underwriters Insurance Company  
Insurance Regulatory Information System  
For the Four-Year Period Ending December 31, 2013**

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	2013	2012	2011	2010
#1 Gross Premium to Surplus	460%	783%	729%	757%
#2 Net Premium to Surplus	0	55	45	42
#3 Change in Net Premiums Written	-141*	14	8	6
#4 Surplus Aid to Surplus	0	0	0	0
#5 Two-Year Overall Operating Ratio	122*	104*	97	91
#6 Investment Yield	2.7*	3.5	3.7	4
#7 Gross Change in Surplus	-35*	-7	1	5
#8 Change in Adjusted Surplus	-10*	-7	1	5
#9 Liabilities to Liquid Assets	67	92	90	85
#10 Agents' Balances to Surplus	0	5	5	4
#11 One-Year Reserve Development to Surplus	0	2	2	0
#12 Two-Year Reserve Development to Surplus	0	4	1	0
#13 Estimated Current Reserve Deficiency to Surplus	0	10	4	-5

Ratio No. 3 measures the change in net premiums written compared to the prior year. An exceptional result was noted in 2013 due net premium written decreasing to \$0. The changes to the pooling agreement, effective January 1, 2013, reduced WUIC's participation in the Liberty Pool from 0.4% to 0.0%, resulting in negative net premiums written for 2013.

Ratio No. 5 is a measure of the company's combined ratio less the investment income ratio over the past two years which provides a look at the company's ability to produce profitable operational results. The exceptional ratios in 2012 and 2013 were primarily due to overall business growth and unfavorable development in prior year asbestos and environmental, personal automobile, and worker's compensation loss reserves.

Ratio No. 6 measures the company's investment yield. The exceptional ratio in 2013 was primarily due to decreased assets available for investment as a result of the company's change to a lower pooling percentage and dividends paid to parent during the year. Assets held at year-end were primarily short-term government bonds.

Ratios No. 7 and No. 8 are measures of the change in surplus from the prior year. The exceptional ratios in 2013 were primarily due to dividends paid to LMIC of \$42.0 million of which \$24.0 million was return of capital distribution.

#### Growth of Wausau Underwriters Insurance Company

Year	Admitted Assets	Liabilities	Surplus as Regards Policyholders	Net Income
2013	\$ 99,744,310	\$ 38,612,344	\$ 61,131,966	\$ 8,961,581
2012	286,810,522	192,542,721	94,267,801	(2,493,243)
2011	284,476,242	183,166,765	101,309,477	(1,278,572)
2010	270,685,842	170,866,948	99,818,894	4,370,479
2009	253,589,563	158,077,073	95,512,490	4,328,872

Year	Gross Premium Written	Net Premium Written	Premium Earned	Loss and LAE Ratio	Expense Ratio	Combined Ratio
2013	\$281,356,630	\$(21,521,954)	\$ 0	0.0%	0.1%	0.1%
2012	738,476,394	52,224,225	49,316,902	90.3	30.3	120.6
2011	738,612,730	45,795,426	43,647,314	90.1	28.1	118.2
2010	755,854,831	42,209,429	41,422,967	83.0	25.6	108.6
2009	688,409,068	39,990,347	39,838,189	85.3	27.3	112.6

There were large decreases to both admitted assets and liabilities as the company's share of the Liberty Pool decreased from 0.4% to 0.0% after changes to the affiliated reinsurance agreement effective January 1, 2013. The decrease in surplus in 2013 was primarily due to dividends paid to LMIC of \$42.0 million, of which \$24.0 million was return of capital distribution, offset by net income. Net income was higher in 2013, compared to the prior four years, primarily due to net investment income combined with increased tax benefits from prior year tax losses.

The change in pooling percentage also created large changes in gross premium written, net premium written, premium earned, and the associated ratios. Net written premium was negative in 2013 due to these pooling changes.

**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, 2013, is accepted.

## VII. SUMMARY OF EXAMINATION RESULTS

### Compliance with Prior Examination Report Recommendations

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

1. Management and Control—It is recommended that the company report changes and send biographical data relating to elected or appointed officers and directors in accordance with the provisions of s. Ins 6.52, Wis. Adm. Code.

Action—Compliance.

2. Report on Executive Compensation—It is recommended that the company include all the required officers and their compensation in the Report on Executive Compensation in accordance with ss. 601.42 and 611.63 (4), Wis. Stat.

Action—Compliance.

### **Summary of Current Examination Results**

There were no adverse or material examination findings as a result of the current examination of the company.

## VIII. CONCLUSION

Wausau Underwriters 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, WUIC became an affiliate of LMIC and its current ultimate parent, LMHC. On September 4, 2009, as part of the reorganization, LMIC dissolved Wausau Service Corporation, the company's parent at the time, and transferred the company's stock to LMIC.

WUIC is a multiline property and casualty company licensed in all 50 states of the United States, Puerto Rico, the U.S. Virgin Islands, and the District of Columbia. A small amount of business is also conducted in various foreign jurisdictions. Worker's compensation is the primary line of business for WUIC which provided approximately 60% of the \$302.9 million of direct premiums written in 2013; approximately 20% of these direct premiums were written in California. WUIC has a 0% net participation in the Liberty Pool. The 2013 annual statement reported admitted assets of \$99.7 million, liabilities of \$38.6 million, policyholders' surplus of \$61.1 million, and a net income of \$9.0 million.

There were large decreases to both admitted assets and liabilities as the company's share of the Liberty Pool decreased from 0.4% to 0.0% after changes to the affiliated reinsurance agreement effective January 1, 2013. The decrease in surplus in 2013 was primarily due to dividends paid to LMIC of \$42.0 million, of which \$24.0 million was return of capital distribution, offset by net income. Net income was higher in 2013, compared to the prior four years, primarily due to net investment income combined with increased tax benefits from prior year tax losses.

The change in pooling percentage also created large changes in gross premium written, net premium written, premium earned, and the associated ratios. Net written premium was negative in 2013 due to these pooling changes.

The examination determined that the company was in compliance with the recommendations made in the prior examination. The current examination resulted in no adverse comments or recommendations.



## **IX. SUMMARY OF COMMENTS AND RECOMMENDATIONS**

There were no recommendations made as a result of this examination.

## 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:

<b>Name</b>	<b>Title</b>
Thomas R. Houston	Insurance Financial Examiner – Advanced, Information Systems Audit Specialist
Jerry C. DeArmond	Insurance Financial Examiner – Advanced, Policy and Claim Reserve Specialist
Frederick H. Thornton	Insurance Financial Examiner – Advanced, Exam Planning & Quality Control Specialist
Stephanie A. Falck	Insurance Financial Examiner – Journey
Daniel L. Schroeder	Insurance Financial Examiner – Journey

Respectfully submitted,

Karl K. Albert, CFE  
Examiner-in-Charge

## **XI. APPENDIX—SUBSEQUENT EVENT**

On July 17, 2014, LMIC reached a definitive agreement with National Indemnity Company (NICO), a subsidiary of Berkshire Hathaway Inc., on a combined aggregate adverse development cover for substantially all of LMIC's U.S. worker's compensation, asbestos and environmental liabilities, attaching at approximately \$12.5 billion of combined aggregate reserves with an aggregate limit of \$6.5 billion and sublimits of \$3.1 billion for asbestos and environmental liabilities and \$4.5 billion for certain worker's compensation liabilities.

Effective as of January 1, 2014, LMIC ceded approximately \$3.3 billion of existing liabilities under this retroactive reinsurance agreement. NICO will provide approximately \$3.2 billion of additional aggregate adverse development cover. LMIC paid NICO total consideration of approximately \$3.0 billion.

The agreement covers LMIC's potentially volatile U.S. asbestos and environmental liabilities arising under policies of insurance and reinsurance with effective dates before January 1, 2005, as well as Commercial Insurance's worker's compensation liabilities as respects injuries or accidents occurring before January 1, 2014. NICO will assume responsibility for claims handling related to LMIC's asbestos and environmental claims, and LMIC will continue to handle all worker's compensation claims.

This transaction is accounted for as retroactive reinsurance in LMIC's GAAP consolidated financial statements and resulted in a pre-tax loss of approximately \$128 million as of the effective date, which was included in LMIC's 2014 third quarter results. Subsequent to the effective date, LMIC recorded \$85 million of worker's compensation, asbestos and environmental adverse development. As a result of the retroactive reinsurance agreement with NICO, LMIC was able to recognize this \$85 million as a benefit to income.