Report of the Examination of

Homestead Mutual Insurance Company

Larsen, Wisconsin

As of December 31, 2018

TABLE OF CONTENTS

Page

State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

Tony Evers, *Governor*
Mark V. Afable*, Commissioner*

Wisconsin.gov

125 South Webster Street • P.O. Box 7873
Madison, Wisconsin 53707-7873
Phone: (608) 266-3585 • Fax: (608) 266-9935
ociinformation@wisconsin.gov
oci.wi.gov

December 17, 2019

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

Commissioner:

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

HOMESTEAD MUTUAL INSURANCE COMPANY
Larsen, Wisconsin

and this report is respectfully submitted.

I. INTRODUCTION

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

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

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

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

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

II. HISTORY AND PLAN OF OPERATION

The company was organized in 1873 as Vinland Town Insurance Company. The company has gone through three mergers since its inception, in each instance as the surviving company. The first merger was with Winchester Mutual Insurance Company on June 17, 1999, at which time the company changed its name to Homestead Mutual Insurance Company, effective September 1, 1999. The second merger was with Nekimi Mutual Insurance Company on February 2, 2000 and the third merger was with Mt. Calvary Mutual Insurance Company on June 15, 2006. Effective January 1, 2015, the company converted from a town mutual insurance company to a non-assessable mutual insurance company under ch. 611. Wis. Stat., while simultaneously entering into an affiliation agreement with Mutual of Wausau Insurance Corporation (MWIC). While the two companies remain as separate entities, MWIC maintains effective control of HMIC by virtue of appointing a majority of the directors on the HMIC board (five of nine). In connection with the affiliation, the companies entered into a management agreement in which the two companies provide various administrative and insurance-related services to each other, as well as a Reinsurance Pooling Agreement that pools the companies' premiums and claims experience to permit the more efficient use of capital and greater efficiencies in contracting for third-party reinsurance.

HMIC is licensed to write business in 37 of the 72 counties of Wisconsin and writes all of its premiums exclusively in Wisconsin. The company is primarily a personal lines writer, with the highest volume lines of business being homeowner's multi-peril and farmowner's multi-peril, with 43.5% and 31.5% of total direct premiums written, respectively. The company utilizes a network of approximately 100 agents to market and acquire business.

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

Line of Business	Direct Premium	Reinsurance Assumed	Reinsurance Ceded	Net Premium
Fire	$ 174,838	$ 129,000	$ 202,519	$ 101,319
Allied lines	262,256	193,499	303,777	151,978
Farmowner's multiple peril	1,048,740	918,036	1,214,781	751,995
Homeowner's multiple peril	1,445,762	1,890,150	1,674,660	1,661,252
Commercial multiple peril	370,320	113,031	428,950	54,401
Other liability – occurrence	23,511	22,606	46,787	(670)
Total All Lines	$3,325,427	$3,266,322	$3,871,474	$2,720,275

III. MANAGEMENT AND CONTROL

Board of Directors

Since its affiliation with Homestead Mutual Insurance Company, effective January 1, 2015, Mutual of Wausau Insurance Corporation has acquired and maintained majority control of HMIC's Board of Directors. Under the bylaws in effect since the affiliation, a majority of directors affiliated with MWIC, who must either be members of HMIC or an insurer affiliated with HMIC (the "MWIC directors"), nominate their successors for election. Likewise, a majority of the directors, who were directors or successors of directors who were HMIC directors at the time of affiliation (the "HMIC directors"), nominate their successors for election. There is also a process for HMIC policyholders to nominate MWIC directors and HMIC directors. All of the directors of HMIC continue to be elected by the policyholders of HMIC, as required by s. 611.53 (2), Wis. Stat. Election and reelection of nominees associated with MWIC on the HMIC board have preserved the affiliation.

The company's by-laws provide that the board of directors shall consist of at least nine but no more than 15 members, with the total number of HMIC directors equal to one less, or in the case of an even total number of directors, two less than the total number of MWIC directors. As of the examination date, the board of directors consisted of nine members. The directors are divided into three classes and one class of directors is elected annually to serve a three-year term. Officers are elected at the board's annual meeting. The board members currently receive $350 for each meeting attended and mileage reimbursement of $0.58/mile for serving on the board.

Currently the board of directors consists of the following persons:

Name and Residence	Principal Occupation	Term Expires
Mark Splinter Wausau, Wisconsin	President/Chief Executive Officer Mutual of Wausau Insurance Corporation	2020
Greg Gonnering Appleton, Wisconsin	Vice President - Claims Mutual of Wausau Insurance Corporation	2019
Michael Moore Marshfield, Wisconsin	Underwriting Manager Mutual of Wausau Insurance Corporation	2021

Name and Residence	Principal Occupation	Term Expires
Karen Stahmann Van Dyne, Wisconsin	Bookkeeper	2019
John Schmitz St. Cloud, Wisconsin	Farmer	2021
Terry Treu Berlin, Wisconsin	Farmer	2020
Lynn Jensen Merrill, Wisconsin	Supervisor of Finance Mutual of Wausau Insurance Corporation	2021
Jessica Vander Ploeg Wausau, Wisconsin	Vice President - Operations Mutual of Wausau Insurance Corporation	2021
George Tipler Oshkosh, Wisconsin	President and Chief Executive Officer Homestead Mutual Insurance Company	2020

Officers of the Company

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

Name	Office	2018 Compensation
George Tipler	President and Chief Executive Officer	$55,812
Jessica Vander Ploeg	Secretary	0*
Mark Splinter	Chairman of the Board	0*

*Officers who are employees of MWIC are not compensated by Homestead for serving on the board, as they are already compensated through their salary.

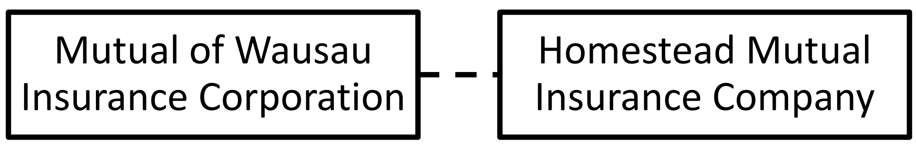
Committees of the Board

The company's bylaws allow for the formation of certain committees by the board of directors. At the time of the examination, there were no committees of the board.

IV. AFFILIATED COMPANIES

HMIC is a member of a holding company system. Effective January 1, 2015, HMIC entered into an affiliation agreement with MWIC. MWIC maintains effective control of HMIC by virtue of appointing a majority of the directors on the HMIC board. The organizational chart below depicts the relationship between the two companies. A brief description of MWIC follows the organizational chart.

Organizational Chart
As of December 31, 2018



Mutual of Wausau Insurance Corporation

Mutual of Wausau Insurance Corporation is an insurance company that is primarily a personal lines writer. The company was originally organized as a town mutual insurance company on January 1, 1998, with the consolidation of two predecessor town mutual insurance companies. On January 1, 2011, the company converted from a town mutual insurance company to a non-assessable mutual insurance company under ch. 611, Wis. Stat. On January 1, 2015, MWIC and HMIC entered into an affiliation agreement. As of December 31, 2018, the audited financial statements of MWIC reported assets of $26,490,900, liabilities of $9,611,111, and surplus as regards to policyholders of $16,879,789. Operations for 2018 produced net income of $1,191,480.

Affiliation Agreement

Effective January 1, 2015, in conjunction with the company's conversion to a domestic mutual company, the company entered into an affiliation agreement with MWIC. Under the terms of the agreement, HMIC updated its articles of incorporation and bylaws, giving MWIC the ability to nominate the majority of HMIC's Board of Directors. In the connection with the companies' affiliation, MWIC and HMIC entered into a Management Agreement, a Reinsurance

Pooling Agreement, and Reinsurance Allocation Agreement. The intent of affiliation is to achieve a greater spread of risk through pooling operations and to gain efficiencies of operations by combining certain activities.

Management Agreement

Effective January 1, 2015, pursuant to the Affiliation Agreement between the company and MWIC, the companies entered into a management agreement to create efficiencies in operations. According to the Management Agreement, both companies will provide to each other, from time to time, services such as reinsurance pricing and procurement, investment services, actuarial analysis, underwriting, human resources, claims management and settlement, and other services on an as-needed basis. The company receiving the services covered under this agreement will reimburse the other company for all costs and expenses incurred.

Reinsurance Pooling Agreement

Effective January 1, 2015, pursuant to the Affiliation Agreement between the company and HMIC, the parties entered into a Reinsurance Pooling Agreement to pool their respective insurance operations in order to provide a more efficient and economical method of operating their insurance business and to stabilize their underwriting results. MWIC makes all appropriate cessions of policies and contracts of insurance, including policies and contracts assumed from Homestead, to third party reinsurers. Reinsurance premium ceded and reinsurance recoveries from third party reinsurers are allocated in accordance with the terms and conditions included in the Reinsurance Allocation Agreement between the parties.

Under the terms of the agreement, the companies pool all premiums written on in-force policies existing on and after January 1, 2015, and allocate to each party its proportional share of the pooled underwriting results, in accordance with a provisional participation percentage. This provisional participation rate is the percentage of total written premiums that each company has in force as of the beginning of business on January 1 of each year, as compared to the combined total written premiums that the two companies have in force as of the beginning of business on January 1 of that year. In a final adjustment, the pool participation for each year shall be the percentage of the total written premiums for each company as of the end of business of December 31 of that year, as compared to the combined total written premiums for the two companies as of the end of business on December 31 of that year. Effective January 1, 2017, the agreement was amended to change the basis of calculation for the provisional participation rate to total direct premium and for the final adjustment rate to total direct premium earned.

Reinsurance Allocation Agreement

In conjunction with the Reinsurance Pooling Agreement, MWIC and HMIC entered into a Reinsurance Allocation Agreement. Under this agreement, the companies agree that, if an occurrence covered under reinsurance involves both companies, each company's retention for that occurrence and the aggregate limit of liability available from reinsurers is proportionate to the amount of appliable claims, including allocated and unallocated loss adjustment expenses from each. The amount of loss retained by each company under the reinsurance is reduced to the percentage of loss borne by the company to the total of all losses contributing to the occurrence. This agreement also states that, for reinsurance premiums ceded, each company is only responsible for its share of the reinsurance premium in the same proportion as the company subject premiums to the reinsurance agreement bear to the total subject premiums. Any profit commission or profit sharing due under a reinsurance agreement is also apportioned to each company in the same proportion as the company subject premium to the reinsurance agreement bear to the total subject premiums.

V. REINSURANCE

The company's reinsurance portfolio and strategy are described below. Mutual of Wausau Insurance Corporation makes all reinsurance placements and the premiums and recoveries are allocated between MWIC and HMIC. There is currently one ceding treaty with seven coverage sections. The treaty contained proper insolvency provisions.

Reinsurer:	Wisconsin Reinsurance Corporation
Effective Date:	January 1, 2019 to January 1, 2021
Termination Provisions:	Either party may terminate the contract as of any subsequent January 1 by giving the other party at least 90 days' advance notice in writing

The coverages provided under this treaty are summarized as follows:

1.	Type:	Combination Umbrella Quota Share and Excess of Loss
	Scope:	All business written by the Company classified as Umbrella Liability
		Part 1, Quota Share of first $1,000,000 limit of liability
	Retention:	1.00% of each loss occurrence of the first $1,000,000
	Coverage:	99.0% of each loss occurrence, including loss adjustment expense, on the business covered by this Part, subject to a maximum limit of liability of $990,000 on each loss occurrence
	Ceding commission:	27.50%
		Part 2, 100.0% of $4,000,000 in excess of $1,000,000 each loss occurrence
	Retention:	$1,000,000 of each loss occurrence
	Coverage:	100.0% of each and every loss, including loss adjustment expense, in excess of a net retention of $1,000,000, subject to the reinsurers limit of liability of 100.0% of $4,000,000 of each loss occurrence
2.	Type:	First Multi Line Per Risk Excess
	Scope:	All business written by the company classified as property, casualty, or liability business
		Multi Line Per Risk - Property
	Retention:	$150,000 each and every loss

	Coverage:	$150,000 each and every loss, including loss adjustment expense, in excess of the retention
		Multi Line Per Risk- Casualty or Liability
	Retention:	$75,000 each and every loss
	Coverage:	$225,000 each and every loss, including loss adjustment expense, in excess of the retention
3.	Type:	Second Multi Line Per Risk Excess
	Scope:	All business written by the company classified as property, casualty, or liability business
		Second Multi Line Per Risk - Property
	Retention:	$300,000 each and every loss
	Coverage:	$700,000 each and every loss, including loss adjustment expense, in excess of the retention
		Second Multi Line Per Risk - Casualty or Liability
	Retention:	$300,000 each and every loss
	Coverage:	$700,000 of each and every loss, including loss adjustment expense, in excess of the retention
4.	Type:	Third Per Risk Excess of Loss
	Scope:	All business written by the company classified as property business
	Retention:	$1,000,000 each and every loss
	Coverage:	$5,000,000 each and every loss, including loss adjustment expense, in excess of the retention
5.	Type:	First Catastrophe Excess of Loss
	Scope:	All property business written by the company
	Retention:	$550,000 each loss occurrence
	Coverage:	$11,450,000 each loss occurrence that occurs during each annual period. Reinsurer's maximum limit of liability will not exceed twice the limit of liability in any one annual period.
	Reinstatement	One free reinstatement

6.	Type:	Combination Aggregate Catastrophe and First Aggregate Excess of Loss Reinsurance
	Scope:	Part 1 - All business written by the company classified as property. Part 1 shall inure to the benefit of Part 2
		Part 2 – All business written by the company
		First Catastrophe Excess of Loss policies are to be maintained and recoveries inure to the benefit of this part.
		Part 1 – Aggregate Catastrophe Excess of Loss
	Franchise Deductible:	$300,000 each loss occurrence
	Retention:	$1,100,000 of annual aggregate amount of ultimate net loss
	Coverage:	$2,400,000 of aggregate annual amount of ultimate net loss including loss adjustment expenses in excess of the company's retention
		Part 2 – Aggregate Excess of Loss
	Retention:	Annual net losses, including loss adjustment expense, equal to not less than 63% of net premium written
	Coverage:	100% of the amount by which annual aggregate net losses, including loss adjustment expenses, exceed the company's retention 63% of net premium written, up to 37% of net premiums written
7.	Type:	Second Aggregate Excess of Loss Reinsurance
	Retention:	Annual net losses, including loss adjustment expense, equal to not less than 100% of net premium written
	Coverage:	100% of annual aggregate net losses, including loss adjustment expenses, in excess of 100% of net premiums written

VI. FINANCIAL DATA

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

Homestead Mutual Insurance Company
Assets
As of December 31, 2018

	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	$ 2,945,678	$	$ 2,945,678
Stocks:			
Preferred stocks	1,249,978		1,249,978
Common stocks	4,120,374		4,120,374
Real estate:			
Occupied by the company	233,278		233,278
Cash, cash equivalents, and short-term investments	1,703,586		1,703,586
Investment income due and accrued	39,128		39,128
Premiums and considerations:			
Uncollected premiums and agents' balances in course of collection	24,991	1,139	23,852
Deferred premiums, agents' balances, and installments booked but deferred and not yet due	408,823		408,823
Reinsurance:			
Amounts recoverable from reinsurers	11,457		11,457
Electronic data processing equipment and software	1,266		1,266
Furniture and equipment, including health care delivery assets	15,708	15,708	
Write-ins for other than invested assets:			
Refundable State Income Taxes	3,496		3,496
Total Assets	$10,757,763	$16,847	$10,740,916

Homestead Mutual Insurance Company
Liabilities, Surplus, and Other Funds
As of December 31, 2018

Losses		$ 280,773
Loss adjustment expenses		19,400
Commissions payable, contingent commissions, and other similar charges		132,337
Other expenses (excluding taxes, licenses, and fees)		37,049
Taxes, licenses, and fees (excluding federal and foreign income taxes)		1,100
Net deferred tax liability		357,360
Unearned premiums		1,682,046
Advance premium		57,951
Payable to parent, subsidiaries, and affiliates		47,101
Total Liabilities		2,615,117
Unassigned funds (surplus)	$8,125,799	
Surplus as Regards Policyholders		8,125,799
Total Liabilities and Surplus		$10,740,916

Homestead Mutual Insurance Company
Summary of Operations
For the Year 2018

Underwriting Income		
Premiums earned		$2,596,384
Deductions:		
Losses incurred	$ 963,234	
Loss adjustment expenses incurred	174,107	
Other underwriting expenses incurred	1,160,888	
Total underwriting deductions		2,298,229
Net underwriting gain (loss)		298,155
Investment Income		
Net investment income earned	199,939	
Net realized capital gains (losses)	(25,350)	
Net investment gain (loss)		174,589
Other Income		
Finance and service charges not included in premiums	130,841	
Write-ins for miscellaneous income:		
Miscellaneous	25	
Total other income		130,866
Net Income		$ 603,610

Homestead Mutual Insurance Company
Cash Flow
For the Year 2018

Premiums collected net of reinsurance			$2,686,295
Net investment income			254,786
Miscellaneous income			130,866
Total			3,071,947
Benefit- and loss-related payments		$1,123,579	
Commissions, expenses paid, and aggregate write-ins for deductions		1,181,363	
Total deductions			2,304,942
Net cash from operations			767,005
Proceeds from investments sold, matured, or repaid:			
Bonds	$1,567,868		
Stocks	1,559,868		
Total investment proceeds		3,127,011	
Cost of investments acquired (long-term only):			
Bonds	1,438,395		
Stocks	1,140,192		
Total investments acquired		2,578,587	
Net cash from investments			548,424
Cash from financing and miscellaneous sources:			
Other cash provided (applied)			(26,232)
Reconciliation:			
Net Change in Cash, Cash Equivalents, and Short-Term Investments			1,289,197
Cash, cash equivalents, and short-term investments:			
Beginning of year			414,389
End of Year			$1,703,586

Homestead Mutual Insurance Company
Compulsory and Security Surplus Calculation
December 31, 2018

Assets		$10,740,916
Less security surplus of insurance subsidiaries		
Less liabilities		2,615,117
Adjusted surplus		8,125,799
Annual premium:		
Lines other than accident and health	$2,720,275	
Factor	20%	
Compulsory surplus (subject to a minimum of $2 million)		2,000,000
Compulsory Surplus Excess (Deficit)		$6,125,799
Adjusted surplus (from above)		$8,125,799
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%)		2,800,000
Security Surplus Excess (Deficit)		$5,325,799

Homestead Mutual Insurance Company
Analysis of Surplus
For the Five-Year Period Ending December 31, 2018

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

	2018	2017	2016	2015	2014
Surplus, beginning of year	$7,800,737	$7,132,511	$6,413,470	$5,705,943	$5,259,546
Net income	603,610	168,938	377,043	500,639	(61,166)
Change in net unrealized capital gains/losses	(164,619)	416,893	455,855	75,564	500,499
Change in net deferred income tax	(116,059)	87,170	(113,074)	(145,703)	
Change in nonadmitted assets	2,130	(4,775)	(783)	5,897	7,064
Write-ins for gains and (losses) in surplus:					
611 Election to Become a Domestic – Effective 1/1/15				271,130	
Surplus, End of Year	$8,125,799	$7,800,737	$7,132,511	$6,413,470	$5,705,943

Homestead Mutual Insurance Company
Insurance Regulatory Information System
For the Four-Year Period Ending December 31, 2018

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

	Ratio	2018	2017	2016	2015
#1	Gross Premium to Surplus	81%	78%	79%	83%
#2	Net Premium to Surplus	33	29	30	33
#3	Change in Net Premiums Written	21	5	0	999*
#4	Surplus Aid to Surplus	0	0	0	0
#5	Two-Year Overall Operating Ratio	82	86	75	72
#6	Investment Yield	2.0*	2.0*	1.8*	2.2*
#7	Gross Change in Surplus	4	9	11	999*
#8	Change in Adjusted Surplus	4	9	11	999*
#9	Liabilities to Liquid Assets	22	21	23	21
#10	Agents' Balances to Surplus	0	0	0	0
#11	One-Year Reserve Development to Surplus	0	-1	-0	999*
#12	Two-Year Reserve Development to Surplus	-1	0	0	999*
#13	Estimated Current Reserve Deficiency to Surplus	-0	-1	-1	0

Exceptional results for ratios #3, 7, 8, 11, and 12 in 2015 were due to the company's conversion from a town mutual to a domestic mutual insurance company. Ratio #6 measures the company's investment yield. The exceptional results for all years under examination are due to the low returns on the company's conservative investment portfolio; this is not uncommon given the low interest rate environment that has prevailed in recent years.

Growth of Homestead Mutual Insurance Company

Year	Admitted Assets	Liabilities	Surplus as Regards Policyholders	Net Income
2018	$10,740,916	$2,615,117	$8,125,799	$603,610
2017	10,237,425	2,436,688	7,800,737	168,938
2016	9,431,340	2,298,829	7,132,511	377,043
2015	8,346,680	1,933,210	6,413,470	500,639
2014	7,302,302	1,596,359	5,705,943	(61,166)
2013	6,766,509	1,513,963	5,259,546	(25,214)

Year	Gross Premium Written	Net Premium Written	Premium Earned	Loss and LAE Ratio	Expense Ratio	Combined Ratio
2018	$6,591,749	$2,720,275	$2,596,384	43.8%	37.9%	81.7%
2017	6,046,410	2,253,229	2,133,325	59.1	41.2	100.3
2016	5,627,734	2,144,284	2,050,947	42.6	44.6	87.2
2015	5,338,920	2,135,971	2,012,874	34.0	41.5	75.5
2014	2,614,938	1,756,871	1,690,248	65.3	41.9	107.2
2013	2,558,373	1,570,126	1,518,577	68.7	38.7	107.4

The company reported net losses in 2013 and 2014 due to poor underwriting results caused by significant storm activity. Since the company's conversion to a ch. 611 non-assessable mutual in 2015, the company has produced favorable operating results. The company's assets increased 47% and surplus increased 42%. Net premium written and earned premium has also steadily increased over the last five years. The company has had a low combined ratio since the 2015 conversion, apart from 2017; 2017 had unusually high storm activity.

Reconciliation of Surplus per Examination

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

VII. SUMMARY OF EXAMINATION RESULTS

Compliance with Prior Examination Report Recommendations

There were eight 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. Book Value of Bonds—It is recommended the company accurately complete Schedule C, Section 1, according to the Town Mutual Annual Statement Instructions.

   Action—Compliance.

2. Book Value of Bonds—It is recommended that, if the company invests in any variable rate corporate debt security, such security must have the following characteristics:

   a. the reference for setting the interest rate must be a U.S. Dollar London Interbank Offered Rate of a single specified duration; and
   b. the interest rate must have a floor in excess of zero percent; and
   c. the total outstanding principal amount of the security at the time of issuance must equal or exceed $250 million.

   For the avoidance of any doubt, in investing in any variable rate corporate debt security, the company:

   a. may assume that any U.S. Dollar London Interbank Offered Rate will exceed zero percent; and
   b. may invest in a security that specifies some increment of interest in excess of a U.S. Dollar London Interbank Offered Rate of a single specified duration; and
   c. may invest in a security that is leveraged relative to a U.S. Dollar London Interbank Offered Rate of a single specified duration, provided that there is no basis point reduction in the index provided by the interest rate formula (for example, 125% of the 3-month U.S. Dollar Rate is acceptable, while 125% of the 3-month U.S. Dollar London Interbank Offered Rate minus 0.10% is not acceptable); and
   d. may not invest in a security that specifies some increment of interest less than a U.S. Dollar London Interbank Offered Rate of a single specified duration, unless such increment is expressed as a percentage of the index (for example, 80% of the 3-month U.S. Dollar London Interbank Offered Rate is acceptable, while the 3-month U.S. Dollar London Interbank Rate minus 0.10% is not acceptable).

   Action—Compliance.

3. Book Value of Bonds—It is recommended that the company maintain evidence on file as to how interest is computed on its current investment in variable rate corporate debt securities.

   Action—Compliance.

4. Book Value of Bonds—It is recommended that the board of directors modify its written investment policy to specify, in accordance with the instructions included in this report, acceptable characteristics of the investments in variable rate corporate debt securities and provide this office with a copy of the revised investment policy within 60 days of the adoption of this report.

Action—Compliance.

5. Stocks and Mutual Fund Investments—It is recommended that the company report ETFs as common stock on Schedule D, Section 1, Part 3, on the annual statement.

   Action—Compliance.

6. Stocks and Mutual Fund Investments—It is recommended that the company comply with investment limitations pursuant to s. Ins 6.20 (6) (f), Wis. Adm. Code.

   Action—Compliance.

7. Premiums, Agents' Balances in Course of Collection—It is recommended the company report and properly nonadmit any amount over 90 days past due according to the Town Mutual Annual Statement Instructions.

   Action—Compliance.

8. Reinsurance Payable—It is recommended that the company report all reinsurance balances on the designated annual statement line rather than net reinsurance payable balances with other unrelated accounts in accordance with the Town Mutual Annual Statement Instructions.

   Action—Compliance.

Summary of Current Examination Results

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

Schedule P Reporting

As discussed in Section IV of this report, HMIC participates in a pooling arrangement with MWIC. The NAIC *Annual Statement Instructions – Property/Casualty* includes provisions that apply to a reporting entity that participates in an intercompany pooling arrangement. Specifically, it requires that the reporting entity participating in a pooling arrangement show only its share of the business, not the total for all participants, in Schedule P. The company has not been following these specific provisions, instead filling out Schedule P as a non-pooling company would. Instead of reporting its share of the combined direct business in the direct and assumed column and its share of cessions to third-party reinsurers in the ceded column of Schedule P- Part 1, it included the intercompany cessions related to the pool in both direct and assumed and ceded columns. The erroneous reporting affected Schedule P- Parts 1, 5, and 6, but it did not affect the net results reported on Schedule P- Part 1, nor did it affect any other part of the Annual Statement. It is recommended that, in future annual statements, the company complete Schedule P in accordance with the NAIC *Annual Statement Instructions – Property/Casualty* as regards an entity that participates in an intercompany pooling arrangement.

VIII. CONCLUSION

The company was organized in 1873 as Vinland Town Insurance Company. The company has gone through three mergers since its inception. Effective January 1, 2015, the company converted from a town mutual insurance company to a non-assessable mutual company under ch. 611. Wis. Stat., while simultaneously entering into an affiliation agreement with Mutual of Wausau Insurance Corporation

The company is primarily a personal lines writer, with the highest volume lines of business being homeowner's multi-peril and farmowner's multi-peril, with 43.5% and 31.5%, respectively. The company utilizes a network of approximately 100 agents to market and acquire business. The company is licensed to write business in 37 counties in the state of Wisconsin.

During the examination period, the company experienced net losses in 2014 due to poor underwriting results caused by significant storm activity. Since the company's conversion to a ch. 611 non-assessable mutual in 2015, the company has produced favorable operating results. The company's assets increased 47% and surplus increased 42%. Net premium written and net premium earned have also steadily increased over the last five years.

IX. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 24 - Schedule P Reporting—It is recommended that, in future annual statements, the company complete Schedule P in accordance with the NAIC *Annual Statement Instructions – Property/Casualty* as regards an entity that participates in an intercompany pooling arrangement.

X. ACKNOWLEDGMENT

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

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

Name	Title
John Pollock	Insurance Financial Examiner
Jeffrey Boyd	Insurance Financial Examiner
James Vanden Branden	ACL Specialist
Eleanor Lu, CISA, CISM	IT Specialist
Jerry DeArmond, CFE, FLMI, AIRC	Reserve Specialist

Respectfully submitted,

Dana Tice
Examiner-in-Charge