

Report of the Examination of
Partners Mutual Insurance Company
Waukesha, Wisconsin
As of December 31, 2020

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March 24, 2022

Honorable Nathan Houdek
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:

PARTNERS MUTUAL INSURANCE COMPANY
Waukesha, Wisconsin

and this report is respectfully submitted.

I. INTRODUCTION

The previous examination of Partners Mutual Insurance Company (the company or Partners) was conducted in 2016 as of December 31, 2015. The current examination covered the intervening period ending December 31, 2020, and included a review of such subsequent transactions as deemed necessary to complete the examination.

The examination of the company was conducted concurrently with the examination of the Pennsylvania National Insurance Group. The Pennsylvania Insurance Department acted in the capacity as the lead state for the coordinated examinations. Work performed by the Pennsylvania Insurance Department was reviewed and relied on where deemed appropriate.

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

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

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

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

Independent Actuary's Review

An independent actuarial firm was engaged under a contract with the Pennsylvania Insurance Department. The actuary reviewed the adequacy of the group of companies', The Penn National Group (Group), losses and loss adjustment expense reserves. The actuary's results were reported to the Pennsylvania Insurance Department. As deemed appropriate, reference is made in this report to the actuary's conclusion.

II. HISTORY AND PLAN OF OPERATION

The company was organized in 1931 as Badger State Casualty Company, Limited Mutual. In February 1992, with approval of the company's policyholders, the company changed its name to Partners Mutual Insurance Company. Effective January 1, 2012, Partners affiliated with Pennsylvania National Mutual Casualty Insurance Company (Penn National). The affiliation includes a reinsurance pooling agreement under which Partners became a participant in Penn National's reinsurance pool, and a management agreement under which Partners utilizes Penn National's services. The affiliation agreement places five representatives of Penn National on the Partners board of directors. Partners continues to operate as a separate entity writing commercial and personal lines in Wisconsin and Iowa but pools risks, shares common services, and has common directors with Penn National as described in this report.

In 2020, the company wrote direct premium in the following states:

Iowa	\$9,184,267	19.8%
Wisconsin	<u>37,203,070</u>	<u>80.2</u>
Total	<u>\$46,387,337</u>	<u>100.0%</u>

The company is licensed in Wisconsin, Iowa, Michigan, and Pennsylvania, but writes premium in Wisconsin and Iowa only. It discontinued writing premium in Michigan as of September 2011. The major products marketed by the company include private passenger auto physical damage, private passenger auto liability, homeowners multi-peril, and worker's compensation. The major products are marketed through 151 independent agents in Iowa and Wisconsin.

The following table is a summary of the net insurance premiums written by the company in 2020. 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	\$ 950,014	\$ 890,466	\$ 950,014	\$ 890,466
Allied lines	71,627	95,528	71,627	95,528
Homeowners multiple peril	10,503,759	2,129,274	10,541,032	2,092,001
Commercial multiple peril	2,295,797	945,186	2,295,797	945,186
Inland marine	1,023,490	375,542	1,023,636	375,396
Workers' compensation	3,645,858	1,355,800	3,645,858	1,355,800
Other liability – occurrence	1,538,208	1,671,318	1,538,208	1,671,318
Products liability – occurrence	309,737	453,254	309,737	453,254
Private passenger auto liability	10,574,263	2,362,498	10,574,263	2,362,498
Commercial auto liability	1,505,966	1,861,481	1,505,966	1,861,481
Auto physical damage	13,968,618	2,747,568	13,968,618	2,747,568
Fidelity		10,409		10,409
Surety		137,742		137,742
Burglary and theft		15		15
Total All Lines	<u>\$46,387,337</u>	<u>\$15,036,081</u>	<u>\$46,424,796</u>	<u>\$14,998,662</u>

III. MANAGEMENT AND CONTROL

Board of Directors

The board of directors consists of nine members. Three directors are elected every two years to serve a six-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. Pursuant to the affiliation agreement, Penn National obtained control of the board of directors of Partners by maintaining five representatives of Penn National on the nine-member Partners board. Board members who are not current employees of the holding company group receive annual compensation in the amount of \$11,000 for serving on the board.

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

Name and Residence	Principal Occupation	Term Expires
Jacquelyn M. Anderson Harrisburg, Pennsylvania	Senior Vice President, Chief Financial Officer, and Treasurer Pennsylvania National Mutual Casualty Insurance Company	2025
Robert B. Brandon Lewisberry, Pennsylvania	President and Chief Executive Officer Pennsylvania National Mutual Casualty Insurance Company	2027
Mark H. Ewert Brookfield, Wisconsin	Executive Vice President and Secretary Partners Mutual Insurance Company	2025
John V. Foster IV Camp Hill, Pennsylvania	Senior Vice President of Insurance Operations Pennsylvania National Mutual Casualty Insurance Company	2023
Michael N. Herro Waukesha, Wisconsin	President and Chief Executive Officer Nickal, LLC	2025
Richard C. Keith Harrisburg, Pennsylvania	President Partners Mutual Insurance Company	2023
Marc A. Lauret Pewaukee, Wisconsin	Executive Vice President and Treasurer Duwe Metal Products Inc.	2023
Andrew F. Potalivo Enola, Pennsylvania	Vice President of Field Operations Pennsylvania National Mutual Casualty Insurance Company	2027
Mark F. Roethle Wauwatosa, Wisconsin	Research Associate Medical College of Wisconsin	2027

Officers of the Company

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

Name	Office
Richard C. Keith	President and Chief Executive Officer
Mark H. Ewert	Executive Vice President and Secretary
Robert A. Potter	Treasurer

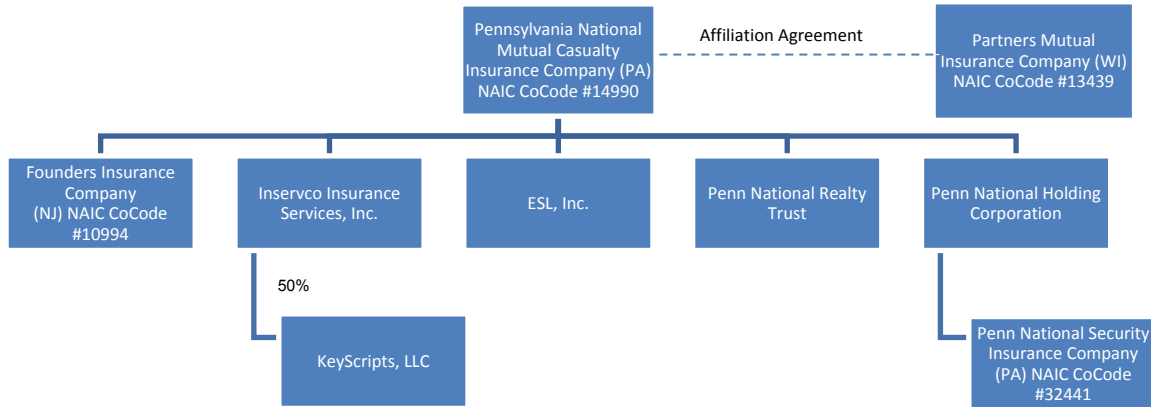
Committees of the Board

The company's bylaws allow for the formation of one or more committees by the board of directors. The company disbanded all committees of the board (Investment Committee, Nominating Committee, and Compensation Committee) in August 2018. There are no committees of the board at the time of the examination.

IV. AFFILIATED COMPANIES

Partners Mutual Insurance Company 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, 2020**



Pennsylvania National Mutual Casualty Insurance Company

Penn National is a multi-line property and casualty insurance company licensed in 43 states and the District of Columbia. It is not licensed in the following states: California, Connecticut, Hawaii, Nevada, New Hampshire, North Dakota, and Wyoming. Through an affiliation agreement, Penn National maintains control of Partners by placing a majority of Penn National’s representatives on the Partners board of directors. As of December 31, 2020, the audited financial statements of Penn National reported assets of \$1.4 billion, liabilities of \$673.3 million, and surplus as regards policyholders of \$704.0 million. Operations for 2020 produced net income of \$25.4 million.

Penn National Security Insurance Company

Penn National Security Insurance Company (Security) is a Pennsylvania stock, property and casualty insurance company and is an indirectly wholly owned subsidiary of Penn National. Security is party to a pooling agreement with its ultimate parent, Penn National, and Partners. Security is licensed to write commercial and personal lines of business in the states of Alabama, Delaware, Maryland, New Jersey, North Carolina, Pennsylvania, South Carolina, Tennessee, Virginia, and the District of Columbia. As of December 31, 2020, the audited financial statements of Security reported assets of \$995.7 million,

liabilities of \$636.5 million, and surplus as regards policyholders of \$359.2 million. Operations for 2020 produced net income of \$21.6 million.

Founders Insurance Company

Founders Insurance Company (Founders) is a New Jersey stock insurance company and is a wholly owned subsidiary of Penn National. Founders is licensed to offer a full line of property and casualty products in the state of New Jersey. Founders entered into a reinsurance agreement with Penn National whereby Founders cedes 100% of its direct and assumed insurance business to Penn National, including all related fees and expenses. As of December 31, 2020, the audited financial statements of Founders reported assets of \$7.0 million, liabilities of \$34.7 thousand, and surplus as regards policyholders of \$6.9 million. Operations for 2020 produced a net income of \$134.9 thousand.

Inservco Insurance Services, Inc.

Inservco Insurance Services, Inc. (Inservco), a wholly owned subsidiary of Penn National, is a third-party claims administrator and full-service risk management services company. Inservco provides claims adjusting services and other insurance-related services to individual and group self-insured programs, insurance companies, and governmental agencies. As of December 31, 2020, the audited GAAP financial statements of Inservco reported assets of \$35.7 million, liabilities of \$11.2 million, and total common stockholder's equity of \$24.5 million. Operations for 2020 produced a net income of \$6.9 million.

KeyScripts, LLC

KeyScripts, LLC (KeyScripts), a Pennsylvania-based pharmacy benefits manager (PBM) and ancillary services provider provides PBM and home health services along with durable medical equipment to injured workers. KeyScripts is 50% owned by Inservco. As of December 31, 2020, the audited GAAP financial statements of KeyScripts reported assets of \$6.2 million, liabilities of \$650.3 thousand, and total common stockholder's equity of \$5.5 million. Operations for 2020 produced a net income of \$17.3 million.

ESL, Inc.

ESL, Inc. (ESL), a wholly owned subsidiary of Penn National, is a trustee of Penn National Realty Trust. ESL, currently inactive, was operated as a wholesale insurance brokerage firm and a Managing General Agent. Effective May 1, 2008, ESL sold the majority of its business to ASL, Inc., and

did not renew the retained policies in 2009. As of December 31, 2020, the financial statements of Penn National reported an adjusted carrying value for ESL of \$0.

Penn National Realty Trust

Penn National Realty Trust (Realty Trust), the owner of the Harrisburg home office of Penn National, serves a property rental function. Penn National pays rent to Realty Trust for the entire home office and parking garage complex. As of December 31, 2020, the audited GAAP financial statements of Realty Trust reported assets of \$22.4 million, liabilities of \$14.9 million, and total common stockholder's equity of \$7.5 million. Operations for 2020 produced a net loss of \$322.8 thousand.

Penn National Holding Corporation

Penn National Holding Corporation (PNHC), a wholly owned subsidiary of Penn National, owns all of the outstanding common stock of Security. As of December 31, 2020, the unaudited financial statements of PNHC reported assets of \$995.7 million, liabilities of \$636.5 million, and total common stockholder's equity of \$359.2 million. Operations for 2020 produced a net income of \$21.6 million.

Agreements with Affiliates

Affiliation Agreement

Effective January 1, 2012, Penn National and Partners entered into an Affiliation Agreement. Per the agreement, both entities agreed to become affiliated, which established the groundwork for all subsequent agreements including, but not limited to, the reinsurance pooling agreement (refer to the Reinsurance section for details) and the management agreement (discussed below).

Management Agreement

Effective January 1, 2012, Penn National and Partners entered into a Management Agreement. Under the agreement, Penn National provides various services to Partners, including reinsurance pricing and procurement, investment services, actuarial analysis, underwriting, human resources services and employee benefits administration, policyholder services, legal services, corporate and tax accounting, record keeping and financial reporting, information technology services, marketing, compliance and strategic planning, premium collection and refunds, claims management and settlement, and other services as the parties mutually agree. Within 30 days following the end of each quarter, Penn National submits an expense statement, and within 15 days after receipt of the statement, Partners pays the amount due.

V. REINSURANCE

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

Reinsurance Pooling Agreement

On January 1, 2012, the company entered into a reinsurance pooling agreement with Penn National and Security, which provides terms and conditions for the allocation of premiums, losses, loss adjusting expenses, loss recoveries, and general expenses. According to the terms of this agreement, Partners cedes 100% of premiums, losses, loss adjusting expenses, loss recoveries, and general underwriting expenses to the pool and receives a 2% share of the pooled financial results. Penn National and Security each assume 49% of the pool business. Penn National administers this agreement and performs all services in connection with the agreement, including purchasing reinsurance from third parties for the pool business.

Nonaffiliated Ceding Contracts

The company is a party to the following ceding reinsurance agreements administered by Penn National on behalf of its subsidiaries and affiliates:

1. Type: Multiple Line Excess of Loss

<u>Reinsurer</u>	<u>Participation in each layer</u>
Hannover Ruck SE	30.00%
Swiss Reinsurance America Corporation	20.00
General Reinsurance Corporation	<u>50.00</u>
Total	<u>100.00%</u>

Scope: Property: All policies classified by the company as fire, allied lines, business owners – section I, commercial multiple peril – section I, homeowners – section I, automobile physical damages, burglary and theft, and inland marine.

Casualty: All policies classified by the company as general liability, commercial multiple peril – section II, business owners – section II, homeowners section – II, automobile liability, and worker's compensation and employer's liability

Retention: Property:
First Multiple Line Excess of Loss – \$1.75 million of ultimate net loss each risk, each loss occurrence

Casualty:

First Multiple Line Excess of Loss – \$1.75 million of ultimate net loss from each loss occurrence

Second Clash – \$5 million of ultimate net loss from each loss occurrence

Third Clash – \$10 million of ultimate net loss from each loss occurrence

Fourth Clash – \$15 million of ultimate net loss from each loss occurrence

Coverage:

Property:

Multiple Line Excess of Loss – \$3.25 million excess of \$1.75 million retention of ultimate net loss each risk, each loss occurrence with maximum limit of \$8.125 million as respects all risks in any one loss occurrence

Casualty:

Multiple Line Excess of Loss – \$3.25 million excess of \$1.75 million retention of each loss occurrence

Second Clash – \$5 million excess of \$5 million retention of each loss occurrence with aggregate coverage of \$5 million in any one contract year

Third Clash – \$5 million excess of \$10 million retention of each loss occurrence with aggregate coverage of \$5 million in any one contract year

Fourth Clash – \$5 million excess of \$15 million retention of each loss occurrence with aggregate coverage of \$5 million in any one contract year

Effective date: January 1, 2021

Termination: Continuous; may be terminated by either party by giving 90 days' notice

2. Type: Property Catastrophe Excess of Loss

<u>Reinsurer</u>	<u>First Layer</u>	<u>Second Layer</u>	<u>Third Layer</u>
American Agricultural Insurance Company	7.50%	4.50%	2.475%
Ariel Re Bermuda Limited	4.00	2.00	1.750
Axis Reinsurance Company	2.00	3.05	3.500
Chord Reinsurance Limited	1.00	1.25	1.250
Davinci Reinsurance Ltd.	0.50	0.50	0.500
Employers Mutual Casualty Company	1.75	1.75	1.350
Hamilton Re, Ltd.	2.00	4.20	5.000
Hannover Re (Bermuda) Ltd.	2.00	4.50	4.275
Underwriting Members of Lloyds, London	37.50	28.50	30.050
Mapfre Re, Compania De Reaseguros S. A.	4.00	9.00	8.100
MS Amlin AG, Bermuda Branch	4.50	3.75	10.000
Odyssey Reinsurance Company	1.00	-	1.800
Partner Reinsurance Company Ltd.	2.25	2.25	2.250
Qatar Reinsurance Company Limited	0.75	2.00	1.500
QBE Reinsurance Corporation	4.00	3.60	3.600
R+V Versicherung AG	13.75	13.50	12.850

Renaissance Reinsurance Ltd.	0.50	0.50	0.500
Shelter Mutual Insurance Company	3.00	3.00	3.000
Swiss Reinsurance America Corporation	3.50	3.00	3.000
Validus Reinsurance, Ltd.	<u>4.50</u>	<u>4.15</u>	<u>3.250</u>
Total	<u>100.00%</u>	<u>95.00%</u>	<u>100.00%</u>

Scope: All policies classified by the company as automobile physical damage, earthquake, fire, allied lines, inland marine, glass, and the property portion of multiple peril type business

Retention: First Layer – \$20 million each and every loss occurrence
Second Layer – \$50 million each and every loss occurrence
Third Layer – \$100 million each and every loss occurrence

Coverage: First Layer – \$30 million each and every loss occurrence; aggregate \$60 million during the contract period
Second Layer – \$50 million each and every loss occurrence; aggregate \$100 million during the contract period
Third Layer – \$60 million each and every loss occurrence; aggregate \$120 million during the contract period

Effective dates: January 1, 2021, to December 31, 2021, both days inclusive

3. Type: Worker's Compensation Excess of Loss

Reinsurer	Participation
Arch Reinsurance Company	18.00%
Odyssey Reinsurance Company	4.00
Partner Reinsurance Company Ltd.	4.50
Safety National Casualty Corporation	18.00
London: Various Lloyd's Underwriters	<u>55.50</u>
Total	<u>100.00%</u>

Scope: All policies classified as Worker's Compensation and Employers' Liability

Retention: \$20 million each and every loss occurrence

Coverage: \$11 million excess of \$20 million retention each loss occurrence. For loss occurrences arising out of Acts of Terrorism, coverage is \$11 million for any one event and an aggregate limit of \$11 million as respects all events.

Effective dates: January 1, 2021, to December 31, 2021, both days inclusive

4. Type: Commercial and Personal Umbrella Liability Excess of Loss

Reinsurer: Munich Reinsurance America, Inc.

Scope: Commercial umbrella liability and commercial excess liability policies;

- Personal umbrella liability policies
- Retention: Commercial umbrella liability and commercial excess liability – \$1 million each policy
- Personal umbrella liability – \$1 million each policy
- Coverage: Commercial umbrella liability and commercial excess liability – \$9 million each policy
- Personal umbrella liability – \$4 million each policy
- Effective date: January 1, 2019
- Termination: Continuous; may be terminated at the end of any quarter by either party giving to the other not less than 90 days' prior written notice
5. Type: Nuclear, Biological, Chemical and Radiological Terrorism Excess of Loss
- Reinsurer: Various Lloyd's Underwriters have 100% participation.
- Scope: All loss occurrences arising out of or related to a Nuclear, Biological, Chemical, and Radiological (NBCR) terrorist activity
- Retention: \$10 million each and every loss occurrence
- Coverage: \$21 million excess of \$10 million retention of any one loss occurrence with maximum limit of \$21 million all losses occurring during the term of the contract
- Effective dates: January 1, 2021, to December 31, 2021, both days inclusive
6. Type: Cyber Security Coverage Quota Share
- Reinsurer: Berkley Insurance Company
- Scope: All business classified as Cyber Security Coverage
- Retention: 20% of ultimate net loss on each Cyber Security Coverage policy
- Coverage: 80% of ultimate net loss on each Cyber Security Coverage policy, subject to a maximum policy limit of \$1 million each occurrence and in the aggregate
- Effective date: November 1, 2015
- Termination: Remain in full force until canceled
7. Type: Employment Practices Liability Quota Share
- Reinsurer: General Reinsurance Corporation
- Scope: Class A – Individually Underwritten Employment Practices Liability Business
- Class B – Portfolio Employment Practices Liability Business

- Retention: Class A – 50% of the first \$100,000 of net loss each claim, and 10% of the next \$900 thousand of net loss each claim in excess of the first \$100 thousand. The limits of liability of the company with respect to any one policy shall be deemed not to exceed \$1 million each claim/ \$1 million aggregate limit.
- Class B – 50% of the policy limit. The limits of liability of the company with respect to any one policy shall be deemed not to exceed \$100 thousand each claim/ \$100 thousand aggregate limit.
- Coverage: Class A – 50% of the first \$100 thousand of net loss each claim, and 90% of the next \$900 thousand of net loss each claim in excess of the first \$100 thousand
- Class B – 50% of the policy limit
- Effective date: July 1, 2011; Partners was added to this contract effective September 1, 2013
- Termination: Continuous; may be terminated by either party giving the other 120 days' prior notice in writing
8. Type: Equipment Breakdown
- Reinsurer: Hartford Steam Boiler Inspection and Insurance Company
- Scope: Equipment Breakdown Liability
- Retention: None
- Coverage: \$5 million for any one accident, any one policy
- Effective date: December 1, 2006; Partners was added to this contract effective November 1, 2017
- Termination: Continue in force until terminated; may be terminated by either party giving the other six months' prior notice in writing
9. Type: Property Facultative
- Reinsurer: General Reinsurance Corporation
- Scope: Property Business classified as fire, allied lines, inland marine, commercial multiple peril (property coverages), or automobile physical damage
- Retention: \$5 million
- Coverage: \$30 million, but the limit of liability of the reinsurer is \$15 million if earthquake. The reinsurance is liable for an additional 20% of the amount ceded on certain amounts not to exceed \$7 million. Aggregate limit of \$100 million with respect to all net loss and adjustment expenses combined on all risks involved in one occurrence
- Effective date: December 1, 2016

Termination:

Remain in full force until terminated; may be terminated by either party giving the other 90 days' prior notice in writing

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, 2020, 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.

Partners Mutual Insurance Company
Assets
As of December 31, 2020

	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	\$28,323,517	\$	\$28,323,517
Stocks:			
Common stocks	1,828,472		1,828,472
Cash, cash equivalents, and short-term investments	2,102,228		2,102,228
Investment income due and accrued	186,514		186,514
Premiums and considerations:			
Uncollected premiums and agents' balances in course of collection	3,172,434	100,487	3,071,947
Deferred premiums, agents' balances, and installments booked but deferred and not yet due	4,083,832		4,083,832
Reinsurance:			
Amounts recoverable from reinsurers	6,839,997		6,839,997
Funds held by or deposited with reinsured companies	120,643		120,643
Current federal and foreign income tax recoverable and interest thereon	48,396		48,396
Net deferred tax asset	1,059,852	90,497	969,355
Guaranty funds receivable or on deposit	22,788		22,788
Electronic data processing equipment and software	2,009		2,009
Furniture and equipment, including health care delivery assets	14,638	14,638	
Receivable from parent, subsidiaries, and affiliates	252,347		252,347
Write-ins for other than invested assets:			
Equities and Deposits Pooled	36,048		36,048
Prepaid expenses	615,314	615,314	
Miscellaneous receivables	500	500	
	<u>500</u>	<u>500</u>	<u> </u>
Total Assets	<u>\$48,709,529</u>	<u>\$821,436</u>	<u>\$47,888,093</u>

**Partners Mutual Insurance Company
Liabilities, Surplus, and Other Funds
As of December 31, 2020**

Losses		\$10,963,658
Reinsurance payable on paid loss and loss adjustment expenses		1,979,305
Loss adjustment expenses		3,260,775
Commissions payable, contingent commissions, and other similar charges		481,960
Other expenses (excluding taxes, licenses, and fees)		72,761
Taxes, licenses, and fees (excluding federal and foreign income taxes)		104,660
Unearned premiums		6,990,269
Dividends declared and unpaid: Policyholders		18,962
Ceded reinsurance premiums payable (net of ceding commissions)		9,604,816
Funds held by company under reinsurance treaties		590
Amounts withheld or retained by company for account of others		28,047
Remittances and items not allocated		266,485
Drafts outstanding		(25,178)
Write-ins for liabilities:		
Miscellaneous payables		20,828
Advance Cash Direct Bill		<u>70,088</u>
Total Liabilities		33,838,016
Write-ins for other than special surplus funds:		
Guaranty funds	\$ 1,000,000	
Unassigned funds (surplus)	<u>13,050,077</u>	
Surplus as Regards Policyholders		<u>14,050,077</u>
Total Liabilities and Surplus		<u>\$47,888,093</u>

Partners Mutual Insurance Company
Summary of Operations
For the Year 2020

Underwriting Income		
Premiums earned		\$14,911,551
Deductions:		
Losses incurred	\$7,983,279	
Loss adjustment expenses incurred	1,608,551	
Other underwriting expenses incurred	<u>5,066,714</u>	
Total underwriting deductions		<u>14,658,544</u>
Net underwriting gain (loss)		253,007
Investment Income		
Net investment income earned	741,045	
Net realized capital gains (losses)	<u>74,599</u>	
Net investment gain (loss)		815,644
Other Income		
Net gain (loss) from agents' or premium balances charged off	(51,528)	
Finance and service charges not included in premiums	87,995	
Write-ins for miscellaneous income:		
Miscellaneous income	<u>(22,517)</u>	
Total other income		<u>13,950</u>
Net income (loss) before dividends to policyholders and before federal and foreign income taxes		1,082,601
Dividends to policyholders		<u>82,517</u>
Net income (loss) after dividends to policyholders but before federal and foreign income taxes		1,000,084
Federal and foreign income taxes incurred		<u> </u>
Net Income (Loss)		<u>\$ 1,000,084</u>

Partners Mutual Insurance Company
Cash Flow
For the Year 2020

Premiums collected net of reinsurance		\$14,813,651
Net investment income		876,863
Miscellaneous income		<u>25,786</u>
Total		15,716,300
Benefit- and loss-related payments	\$11,108,668	
Commissions, expenses paid, and aggregate write-ins for deductions	4,929,723	
Dividends paid to policyholders	86,418	
Total deductions		<u>16,124,809</u>
Net cash from operations		(408,509)
Proceeds from investments sold, matured, or repaid:		
Bonds	\$6,296,467	
Stocks	<u>874,062</u>	
Total investment proceeds		7,170,529
Cost of investments acquired (long-term only):		
Bonds	6,880,807	
Stocks	<u>851,323</u>	
Total investments acquired		<u>7,732,130</u>
Net cash from investments		(561,601)
Cash from financing and miscellaneous sources:		
Other cash provided (applied)	<u>713,783</u>	
Net cash from financing and miscellaneous sources		<u>713,783</u>
Reconciliation:		
Net Change in Cash, Cash Equivalents, and Short-Term Investments		(256,327)
Cash, cash equivalents, and short-term investments:		
Beginning of year		<u>2,358,555</u>
End of Year		<u>\$ 2,102,228</u>

**Partners Mutual Insurance Company
Compulsory and Security Surplus Calculation
December 31, 2020**

Assets		\$47,888,093
Less liabilities		<u>33,838,016</u>
Adjusted surplus		14,050,077
Annual premium:		
Lines other than accident and health	\$29,617,409	
Factor	<u>20%</u>	
Compulsory surplus (subject to a minimum of \$2 million)		<u>5,923,481</u>
Compulsory Surplus Excess (Deficit)		<u>\$ 8,126,596</u>
Adjusted surplus (from above)		\$14,050,077
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>8,292,873</u>
Security Surplus Excess (Deficit)		<u>\$ 5,757,204</u>

Partners Mutual Insurance Company
Analysis of Surplus
For the Five-Year Period Ending December 31, 2020

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

	2020	2019	2018	2017	2016
Surplus, beginning of year	\$13,207,414	\$11,133,276	\$10,876,941	\$11,917,734	\$ 9,390,166
Net income	1,000,084	1,026,953	353,739	(1,452,823)	930,745
Change in net unrealized capital gains/losses	46,503	228,427	(138,885)	165,407	(261)
Change in net deferred income tax	(161,807)	(264,603)	256,344	(934,964)	(1,246,892)
Change in nonadmitted assets	(95,086)	773,485	(251,339)	1,095,079	354,117
Write-ins for gains and (losses) in surplus:					
Change in postretirement benefits	(3,444)	(2,535)	(828)	9,920	(2,158)
Change in defined benefit plan additional minimum liability	<u>56,413</u>	<u>312,411</u>	<u>37,304</u>	<u>76,588</u>	<u>2,492,017</u>
Surplus, End of Year	<u>\$14,050,077</u>	<u>\$13,207,414</u>	<u>\$11,133,276</u>	<u>\$10,876,941</u>	<u>\$11,917,734</u>

Partners Mutual Insurance Company
Insurance Regulatory Information System
For the Five-Year Period Ending December 31, 2020

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	2020	2019	2018	2017	2016
#1 Gross Premium to Surplus	437%	455%	509%	489%	411%
#2 Net Premium to Surplus	107	114	132	129	115
#3 Change in Net Premiums Written	0	2	4	3	2
#4 Surplus Aid to Surplus	0	0	0	0	0
#5 Two-Year Overall Operating Ratio	94	96	103*	101*	95
#6 Investment Yield	2.3	2.5	2.5	2.3*	2.1*
#7 Gross Change in Surplus	6	19	2	-9	27
#8 Change in Adjusted Surplus	6	19	2	-9	27*
#9 Liabilities to Liquid Assets	92	95	100*	107*	98
#10 Agents' Balances to Surplus	22	24	28	27	24
#11 One-Year Reserve Development to Surplus	0	-3	0	20*	0
#12 Two-Year Reserve Development	-4	-4	20*	26*	-5

Ratio	2020	2019	2018	2017	2016
#13 to Surplus Estimated Current Reserve Deficiency to Surplus	0	7	15	19	-3

Ratio No. 5 measures the company's profitability over the previous two-year period. The exceptional result in 2017 was due to the significant increase in losses and LAE incurred. The large increase in the losses incurred and LAE incurred was primarily due to the re-evaluation of the company's portion of the allowance for reinsurance recoverables due to circumstances that arose during 2017. The exceptional result in 2018 was due to the significant increase in losses and LAE incurred in 2017, which improved in 2018, but was still higher than the usual trend.

Ratio No. 6 measures the average return on the company's investments. The low investment yields in 2016 and 2017 were mainly due to the company's conservative investment portfolio. The low-interest-rate environment also contributed to the exceptional results.

Ratio No. 8 measures the improvement or deterioration in the insurer's financial condition during the year and concentrates on the effect of operational results. The exceptional result in 2016 was due primarily to the transfer of Additional Minimum Pension Liability.

Ratio No. 9 measures the company's ability to meet short-term obligations. The exceptional results in 2017 and 2018 have improved since 2018.

Ratio No. 11 measures the development of unpaid loss and loss adjustment expenses based on loss and loss adjustment expenses reported one year prior. The exceptional result in 2017 was primarily due to re-evaluation of the company's portion of the allowance for reinsurance recoverables on lead paint losses, due to circumstances that arose during the year.

Ratio No. 12 measures the development of unpaid loss and loss adjustment expenses based on loss and loss adjustment expenses reported two years prior. The exceptional results in 2017 and 2018 were primarily due to re-evaluation of the company's portion of the allowance for reinsurance recoverables on lead paint losses.

Growth of Partners Mutual Insurance Company

Year	Admitted Assets	Liabilities	Surplus as Regards Policyholders	Net Income
2020	\$47,888,093	\$33,838,016	\$14,050,077	\$1,000,084
2019	47,730,496	34,523,082	13,207,414	1,026,953
2018	46,370,176	35,236,900	11,133,276	353,739
2017	46,966,000	36,089,059	10,876,941	(1,452,823)
2016	44,167,643	32,249,909	11,917,734	930,745
2015	42,763,553	33,373,387	9,390,166	376,860

Year	Gross Premium Written	Net Premium Written	Premium Earned	Loss and LAE Ratio	Expense Ratio	Combined Ratio
2020	\$61,423,458	\$14,998,662	\$14,911,551	64.3%	33.7%	98.0%
2019	60,092,398	14,992,337	14,840,885	65.5	32.7	98.2
2018	56,686,474	14,682,503	14,326,976	70.4	30.7	101.1
2017	53,216,492	14,064,309	13,806,682	82.6	32.1	114.7
2016	48,938,934	13,718,652	13,688,295	64.2	32.8	97.0
2015	45,633,858	13,507,134	13,367,606	65.0	35.2	100.2

Partners Mutual Insurance Company's policyholders' surplus has been increasing each year under the examination, except 2017. Since its affiliation with the Penn National Group (and participation in the pooling arrangement) in 2012, the company has been able to generate small (but steady) underwriting results. The company reported underwriting losses in 2017 and 2018 and net income each year under the examination except 2017. The unfavorable results for 2017 were primarily due to re-evaluation of the company's portion of the allowance for reinsurance recoverables on lead paint losses.

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, 2020, is accepted.

Examination Reclassifications

No reclassifications were made as a result of the examination.

VII. SUMMARY OF EXAMINATION RESULTS

Compliance with Prior Examination Report Recommendations

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

Summary of Current Examination Results

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

Escheat Procedures

The examination's review of outstanding checks at year-end 2020 indicated that the company did not file unclaimed property reports with the State of Wisconsin in 2019 and 2020, and did not escheat outstanding checks that should have been escheated. Although the company properly escheated the checks with the 2020 unclaimed property report filing (submitted in 2021), the November 2021 list of outstanding checks included checks that were escheated in October 2021.

Pursuant to Unclaimed Property Statutes, ch. 177, Wis. Stat., property is presumed abandoned if it is unclaimed by the apparent owner the earlier of five years after the owner first has a right to demand the property, or the date on which the obligation to pay or distribute the property arises. The unclaimed property report shall be filed on or before November 1 of each year and cover the 12 months preceding July 1 of that year. It is recommended that the company review and update its escheat policies and procedures to ensure compliance with Wisconsin's statutes pertaining to unclaimed property, pursuant to ch. 177, Wis. Stat.

VIII. CONCLUSION

Partners Mutual Insurance Company's policyholders' surplus has increased each year under the examination, with the exception of 2017. Since its 2012 affiliation with the Pennsylvania National Group (and participation in the pooling arrangement), the company has been able to generate small (but steady) underwriting results in most years. The company reported underwriting losses in 2017 and 2018 and net income each year under the examination with the exception of 2017.

The prior examination did not result in any examination recommendations. There was one recommendation made as a result of the current examination. There were no adjustments made to surplus and no reclassifications as a result of the examination. The amount of surplus reported by the company as of December 31, 2020, is accepted.

IX. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 28 - Escheat Procedures – It is recommended that the company review and update its escheat policies and procedures to ensure compliance with Wisconsin's statutes pertaining to unclaimed property, pursuant to ch. 177, Wis. Stat.

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
Eleanor Lu, CISA	IT Specialist
Nicholas Hartwig	Quality Control Specialist
Jerry DeArmond, CFE	Reserve Specialist

Respectfully submitted,



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Insurance Financial Examiner Chief