

Report  
of the  
Examination of  
American Standard Insurance Company of Wisconsin  
Madison, Wisconsin  
As of December 31, 2011

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# State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

**Scott Walker**, Governor  
**Theodore K. Nickel**, Commissioner

**Wisconsin.gov**

October 29, 2012

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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:

AMERICAN STANDARD INSURANCE COMPANY OF WISCONSIN  
Madison, Wisconsin

and this report is respectfully submitted.

## I. INTRODUCTION

The previous examination of American Standard Insurance Company of Wisconsin (ASIC or the company) was conducted in 2007 as of December 31, 2006. The current examination covered the intervening period ending December 31, 2011, and included a review of such 2012 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 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.

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

ASIC cedes 100% of its direct writings to its parent, American Family Mutual Insurance Company (AFMIC), through a signed Quota Share Reinsurance Agreement. An independent actuarial firm was engaged under a contract with the Office of the Commissioner of Insurance. The actuary reviewed the adequacy of the loss and loss adjustment expense reserves of AFMIC, which includes the assumed loss reserves from ASIC. The actuary's results

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

## II. HISTORY AND PLAN OF OPERATION

American Standard Insurance Company of Wisconsin is a stock property and casualty insurer, organized in 1961 under the provisions of ch. 611, Wis. Stat., as the American Standard Insurance Company. The company changed its name to that presently used in 1962. ASIC is a wholly owned subsidiary of American Family Mutual Insurance Company through its downstream holding company, AmFam, Incorporated. Collectively, AFMIC and subsidiaries are known as the American Family Mutual Insurance Group. The company is currently licensed in 23 states.

In 2011, the company wrote direct premium in the following states:

Wisconsin	\$ 42,510,561	17.0%
Missouri	39,296,717	15.7
Colorado	30,168,625	12.0
Minnesota	23,631,414	9.4
Kansas	23,022,136	9.2
All Others	<u>91,797,005</u>	<u>36.7</u>
 Total	 <u>\$250,426,458</u>	 <u>100.0%</u>

The company is currently licensed in the following states:

Arizona	Colorado	Idaho
Illinois	Indiana	Iowa
Kansas	Minnesota	Missouri
Montana	Nebraska	Nevada
New Mexico	North Carolina	North Dakota
Ohio	Oregon	South Carolina
South Dakota	Utah	Washington
Wisconsin	Wyoming	

The major products marketed by the company include private passenger auto liability and auto physical damage. ASIC primarily provides insurance for motorcycles and for nonstandard private passenger automobile risks. ASIC cedes 100% of its direct writings to its parent, AFMIC. Marketing of the company's products is accomplished through AFMIC's general agency network.

The following table is a summary of the net insurance premiums written by the company in 2011. 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>
Commercial multiple peril	\$ 0	\$ 1,156,872	\$ 1,156,872	\$0
Medical professional liability - claims made	0	5,316	5,316	0
Group accident and health	0	4,032,974	4,032,974	0
Other accident and health	0	3,665,492	3,665,492	0
Other liability – occurrence	0	352	352	0
Other liability – claims made	0	238,199	238,199	0
Private passenger auto liability	166,596,722	0	166,596,722	0
Commercial auto liability	257	0	257	0
Auto physical damage	83,829,479	0	83,829,479	0
Fidelity	0	92,065	92,065	0
Surety	0	228,757	228,757	0
Reinsurance – non-proportional assumed property	<u>0</u>	<u>8,400,907</u>	<u>8,400,907</u>	<u>0</u>
<b>Total All Lines</b>	<b><u>\$250,426,458</u></b>	<b><u>\$17,820,934</u></b>	<b><u>\$268,247,392</u></b>	<b><u>\$0</u></b>

### III. MANAGEMENT AND CONTROL

#### Board of Directors

The board of directors consists of six members who are elected annually, each of whom is an officer of AFMIC. Officers are elected at the annual board meetings and are to hold those positions until the earlier of their resignation or removal by the board of directors. As inside directors, they receive no additional compensation for serving on the board.

Currently the board of directors consists of the following persons:

<b>Name and Residence</b>	<b>Principal Occupation</b>	<b>Term Expires</b>
Gerry Benusa Waunakee, WI	Executive Vice President American Family Mutual Insurance Company	2012
David Holman Verona, WI	Secretary and Chief Legal Officer American Family Mutual Insurance Company	2012
Daniel Kelly De Forest, WI	Treasurer and Chief Financial Officer American Family Mutual Insurance Company	2012
Jack Salzwedel Middleton, WI	Chairman and Chief Executive Officer American Family Mutual Insurance Company	2012
Daniel Schultz Monona, WI	President and Chief Operating Officer American Family Mutual Insurance Company	2012
William Westrate Sun Prairie, WI	Executive Vice President American Family Mutual Insurance Company	2012

## Officers of the Company

The officers appointed by the board of directors and serving at the time of this examination are listed below. Listed compensation is total gross earnings for services rendered to the American Family Mutual Insurance Group and includes amounts allocated to all affiliates.

<b>Name</b>	<b>Office</b>	<b>2011 Compensation</b>
Jack Salzwedel	Chairman and Chief Executive Officer	\$3,190,155
Daniel Schultz	President and Chief Operations Officer	1,813,784
Daniel Kelly	Treasurer and Chief Financial Officer	797,243
David Holman	Secretary and Chief Legal Officer	638,401
Mark Afable	Executive Vice President	1,146,995
Gerry Benusa	Executive Vice President	929,492
Bradley Gleason	Executive Vice President	2,537,332
Jerome Rekowski	Executive Vice President	1,178,396
Mary Lynn Schmoeger	Executive Vice President	1,071,641
Peter Gunder	Senior Vice President, Investments	1,170,300
Kari Grasee	Vice President, Controller	709,872
Dean Fiorelli	Assistant Treasurer	257,539
Ann Wenzel	Assistant Secretary	237,095

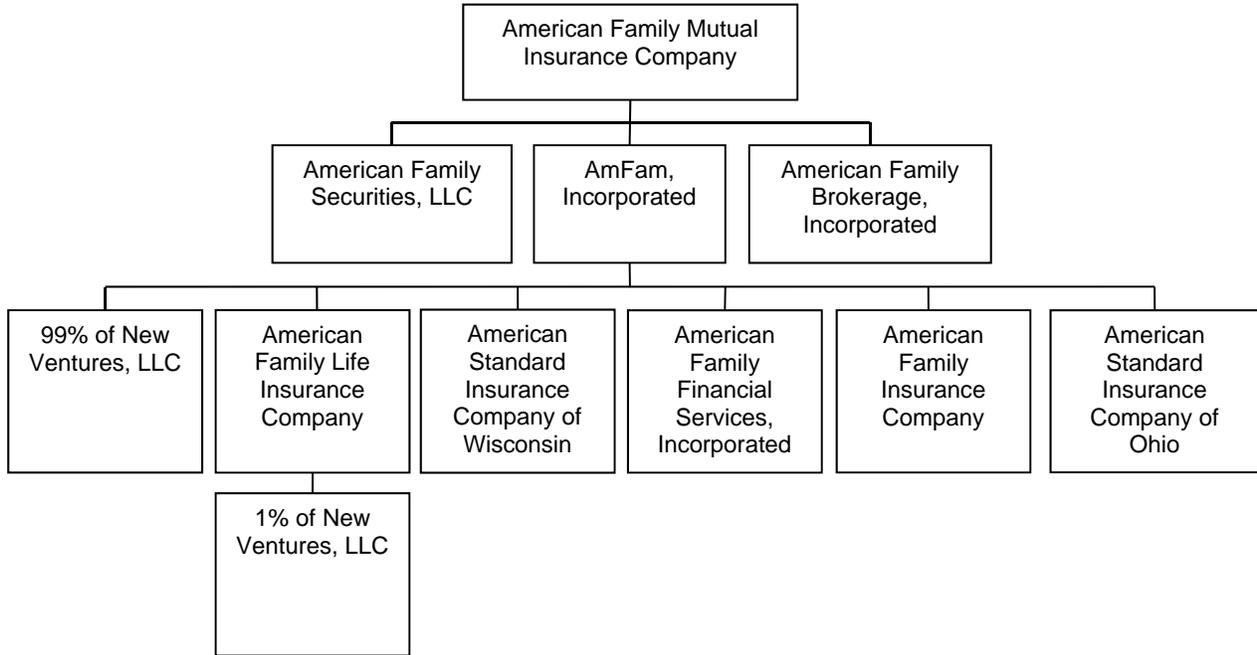
## Committees of the Board

The company's bylaws allow for the formation of certain committees by the board of directors. There were no committees appointed by the board at the time of the examination. The committees of the ultimate parent, AFMIC, govern the company.

#### IV. AFFILIATED COMPANIES

ASIC is a member of a holding company system referred to as the American Family Mutual Insurance Group. The organizational chart below depicts the relationships among the affiliates in the group. A brief description of the affiliates follows the organizational chart.

**Organizational Chart  
As of December 31, 2011**



#### **American Family Mutual Insurance Company**

American Family Mutual Insurance Company is the ultimate parent of the American Family Mutual Insurance Group (American Family Group). AFMIC was organized in 1927 and writes primarily auto and homeowner’s coverage in 18 states. AFMIC assumes 100% of the business written by its downstream property and casualty subsidiaries, including American Standard Insurance Company of Wisconsin, American Family Life Insurance Company, American Standard Insurance Company of Ohio, and American Family Insurance Company.

As of December 31, 2011, statutory-basis audited financial statements for AFMIC reported assets of \$11.64 billion, liabilities of \$6.98 billion, and policyholders’ surplus of \$4.66 billion. Operations for 2011 produced net income of \$218 million on net premiums written of \$5.17 billion.

**AmFam, Incorporated**

AmFam, Incorporated, was incorporated in 1981 to serve as a downstream holding company for the American Family Group.

As of December 31, 2011, unaudited financial data for AmFam, Incorporated, reported assets of \$1.02 billion, liabilities of \$0 and equity of \$1.02 billion. Operations for 2011 produced net income of \$78.2 million on zero revenues.

**American Family Brokerage, Incorporated**

American Family Brokerage, Incorporated (AFBI) was incorporated in 1985 as an insurance agency and operates within the same states as its parent, AFMIC, and is also licensed in Delaware, South Carolina, and Arkansas. Its primary objective is to assist the company's agents in securing coverage for their clients when the coverage or limits are not available through the American Family Group.

As of December 31, 2011, unaudited GAAP financial data for AFBI reported assets of \$3.76 million, liabilities of \$2.50 million and equity of \$1.26 million. Operations for 2011 produced net income of \$311 thousand on revenues of \$8.52 million.

**American Family Securities, LLC**

American Family Securities, LLC (AFS) was incorporated on July 14, 2000, with a capital contribution of \$250,000 from AFMIC, as a limited liability company whose sole member is AFMIC. AFS, a non-clearing, registered broker dealer, is the principal underwriter for American Family Life Insurance Company's variable life and annuity products. On March 23, 2001, AFS was admitted into the National Association of Securities Dealers (NASD) to sell variable products for American Family Life Insurance Company (AFLIC).

As of September 2009, AFLIC no longer sells variable products. It continues to service the products already sold.

As of December 31, 2011, GAAP-basis audited financial statements for AFS reported assets of \$18 thousand, liabilities of \$0 and equity of \$18 thousand. Operations for 2011 produced no net income on revenues of \$5.64 million.

### **American Family Financial Services, Incorporated**

American Family Financial Services, Incorporated (AFFS) was formed by American Family Group in 1969. Its original business purpose was to provide direct loans and leases, primarily to policyholders, through AFMIC's multi-line exclusive agency force. However, as of November 1, 2007, AFFS has discontinued writing new loans of any kind and is considering various options for the servicing and run-off of its existing loan portfolio.

As of December 31, 2011, unaudited GAAP financial data for AFFS reported assets of \$24.62 million, liabilities of \$22.09 million and equity of \$2.53 million. Operations for 2011 produced a net loss of \$2.01 million on revenues of \$1.15 million.

### **New Ventures, LLC**

New Ventures, LLC, was formed in 2010 and currently holds one strategic equity investment in a non-insurance entity. New Ventures, LLC, has no other assets or liabilities and does not engage in any other business operations other than that related to its single strategic equity investment. AmFam, Incorporated, is the managing member and AFLIC is a member.

As of December 31, 2011, unaudited GAAP financial data for New Ventures, LLC, reported assets of \$3.56 million, liabilities of \$0 and equity of \$3.56 million. Operations for 2011 produced a net loss of \$940 thousand on zero revenues.

### **American Family Life Insurance Company**

American Family Life Insurance Company (AFLIC) was incorporated in 1957. The company is currently licensed in 27 states and writes primarily ordinary life insurance products, including traditional life, universal life, and annuities.

As of December 31, 2011, statutory-basis audited financial statements for AFLIC reported assets of \$4.60 billion, liabilities of \$3.91 billion (both amounts include \$254 million from separate accounts), and surplus of \$691 million. Operations for 2011 produced net income of \$69 million on premiums of \$372 million.

### **American Family Insurance Company**

American Family Insurance Company (AFIC) was incorporated in Ohio in 1995. The company is licensed and writes business in both Ohio and Georgia. AFIC was founded for the

purposes of operating efficiencies and state tax savings. AFIC cedes 100% of its direct writings to AFMIC under a signed Quota Share Reinsurance Agreement. AFIC offers lines of business identical to AFMIC and markets its business through AFMIC's agency force.

As of December 31, 2011, statutory-basis audited financial statements for AFIC reported assets of \$28.3 million, liabilities of \$13.7 million and surplus of \$14.6 million. Operations for 2011 produced net income of \$889 thousand, consisting solely of investment income.

### **American Standard Insurance Company of Ohio**

American Standard Insurance Company of Ohio (ASICO) was incorporated in 1995. The company is licensed and writes business in both Ohio and Georgia. ASICO was founded for the purposes of operating efficiencies and state tax savings. ASICO cedes 100% of its direct writings to AFMIC under a signed Quota Share Reinsurance Agreement. ASICO offers lines of business identical to ASIC, and markets its business through AFMIC's agency force.

As of December 31, 2011, statutory-basis audited financial statements for ASICO reported assets of \$7.9 million, liabilities of \$1.0 million and surplus of \$6.9 million. Operations for 2011 produced a net income of \$229 thousand, consisting solely of investment income.

### **Agreements with Affiliates**

1. Intercompany Provision and Cost Allocation Agreement—Effective May 28, 2008, AFMIC entered into an agreement with AFLIC, ASIC, ASICO, AFIC, AFFS, AFBI, AFS and AmFam, Incorporated, for the provision of goods, management and other services provided by AFMIC directly or indirectly to subsidiaries. Settlement for services shall occur on a monthly basis.
2. Sale of Premium Receivables—Effective January 1, 2000, AFMIC entered into separate agreements with ASIC, AFIC and ASICO for the sale, assignment and transfer of each company's premium receivable. Receivables are purchased at the end of each month and settlement occurs within five days thereafter.
3. Tax Allocation Agreement—Effective April 29, 2002, AFMIC entered into a tax allocation agreement with AFLIC, ASIC, ASICO, AFIC, AFFS, AFBI, AFS and AmFam, Incorporated. The agreement provides the basis for computation and the method of settlement of federal

income tax payments and refunds within the American Family Mutual Group. Under this agreement, AFMIC prepares and files a consolidated federal income tax return that includes all affiliates of the holding company group. Final settlement is due within 30 days of the filing of the consolidated federal tax return. This agreement was amended as of December 23, 2003.

## V. REINSURANCE

### **Ceded Business**

ASIC cedes 100% of its direct writings to AFMIC through a signed Quota Share Agreement. This contract includes all necessary provisions and a proper insolvency clause. In 2011, this business represents approximately 5% of AFMIC's gross written premium. ASIC's business writings are primarily nonstandard personal lines automobile business.

In connection with the affiliated reinsurance agreement, AFMIC and ASIC entered into an agreement for the sale of ASIC's premium receivable, which is described in the "Affiliated Companies" section.

### **Assumed Business**

Under an alliance between the American Family Group and American Enterprise Group (AEG), American Family Group agents sell AEG-branded major medical and Medicare supplemental products. ASIC assumes 50% of AEG's premiums, expenses and losses for all AEG major medical and Medicare supplemental products sold by the American Family Group agency force.

Beginning with the January 1, 2011, renewal season, the American Family Group commenced producing and writing assumed reinsurance. The target business is broker-produced catastrophe business for carriers that generally write business similar to the American Family Group (personal lines and small-to-medium commercial lines) operating outside of the American Family Group's territory. Geographic territories include, but are not limited to, companies writing on the east coast, Florida, the Gulf coast, Texas, and California, as well as carriers outside the U.S.

## **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, 2011, 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."

**American Standard Insurance Company of Wisconsin  
Assets  
As of December 31, 2011**

	<b>Assets</b>	<b>Nonadmitted Assets</b>	<b>Net Admitted Assets</b>
Bonds	\$306,365,748	\$0	\$306,365,748
Cash, cash equivalents, and short-term investments	15,683,690	0	15,683,690
Receivables for securities	816,953	0	816,953
Investment income due and accrued	2,759,609	0	2,759,609
Premiums and considerations:			
Deferred premiums, agents' balances, and installments booked but deferred and not yet due	1,763,123	0	1,763,123
Reinsurance:		0	
Amounts recoverable from reinsurers	13,100,445	0	13,100,445
Funds held by or deposited with reinsured companies	63,199	0	63,199
Net adjustments in assets and liabilities due to foreign exchange rates	1,852	0	1,852
Receivable from parent, subsidiaries, and affiliates	<u>19,486,790</u>	<u>0</u>	<u>19,486,790</u>
Total Assets	<u>\$360,041,409</u>	<u>\$0</u>	<u>\$360,041,409</u>

**American Standard Insurance Company of Wisconsin  
Liabilities, Surplus, and Other Funds  
As of December 31, 2011**

Taxes, licenses, and fees (excluding federal and foreign income taxes)		\$ (232,822)
Net deferred tax liability		101,527
Advance premium		529,292
Ceded reinsurance premiums payable (net of ceding commissions)		(7,576,915)
Amounts withheld or retained by company for account of others		49,669
Remittances and items not allocated		124
Net adjustments in assets and liabilities due to foreign exchange rates		(17,460)
Drafts outstanding		13,951,821
Payable to parent, subsidiaries, and affiliates		52,727,311
Payable for securities		314,394
Write-ins for liabilities:		
All other liabilities		<u>1,188,894</u>
 Total liabilities		 61,035,835
 Common capital stock	\$ 3,000,000	
Gross paid in and contributed surplus	3,000,000	
Unassigned funds (surplus)	<u>293,005,574</u>	
 Surplus as regards policyholders		 <u>299,005,574</u>
 Total Liabilities and Surplus		 <u>\$360,041,409</u>

**American Standard Insurance Company of Wisconsin  
Summary of Operations  
For the Year 2011**

**Investment Income**

Net investment income earned	\$11,031,394	
Net realized capital gains (losses)	<u>3,288,280</u>	
Net investment gain (loss)		\$14,319,674

**Other Income**

Write-ins for miscellaneous income:		
Other income		<u>(11,038)</u>

Net income (loss) before federal and foreign income taxes		14,308,636
Federal and foreign income taxes incurred		<u>3,489,605</u>

Net Income		<u>\$10,819,032</u>
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**American Standard Insurance Company of Wisconsin  
Cash Flow  
For the Year 2011**

Premiums collected net of reinsurance		\$(13,061,503)
Net investment income		12,856,924
Miscellaneous income		<u>(74,237)</u>
Total		(278,816)
Benefit- and loss-related payments	\$ (2,376,202)	
Commissions, expenses paid, and aggregate write-ins for deductions	(82,899)	
Federal and foreign income taxes paid (recovered)	<u>3,489,325</u>	
Total deductions		<u>1,030,124</u>
Net cash from operations		(1,308,940)
Proceeds from investments sold, matured, or repaid:		
Bonds	\$294,372,368	
Net gains on cash, cash equivalents and short-term investments	563	
Miscellaneous proceeds	<u>518</u>	
Total investment proceeds		<u>294,373,449</u>
Cost of investments acquired (long-term only):		
Bonds	296,483,722	
Miscellaneous applications	<u>1,498,373</u>	
Total investments acquired		<u>297,982,095</u>
Net cash from investments		(3,608,646)
Cash from financing and miscellaneous sources:		
Other cash provided (applied)	<u>3,888,571</u>	
Net cash from financing and miscellaneous sources		<u>3,888,571</u>
<b>Reconciliation:</b>		
Net change in cash, cash equivalents, and short-term investments		(1,029,015)
Cash, cash equivalents, and short-term investments:		
Beginning of year		<u>16,712,706</u>
End of Year		<u>\$ 15,683,690</u>

**American Standard Insurance Company of Wisconsin  
Compulsory and Security Surplus Calculation  
December 31, 2011**

Assets		\$360,041,409
Less security surplus of insurance subsidiaries		0
Less liabilities		<u>61,035,835</u>
Adjusted surplus		299,005,574
Annual premium:		
Lines other than accident and health	\$ 0	
Factor	<u>20%</u>	
Compulsory surplus (subject to a minimum of \$2 million)		<u>2,000,000</u>
Compulsory Surplus Excess (or Deficit)		<u>\$297,005,574</u>
Adjusted surplus (from above)		\$299,005,574
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>\$296,205,574</u>

**American Standard Insurance Company of Wisconsin  
Analysis of Surplus  
For the Five-Year Period Ending December 31, 2011**

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

	2011	2010	2009	2008	2007
Surplus, beginning of year	\$288,323,594	\$274,357,515	\$262,867,711	\$251,185,748	\$238,598,476
Net income	10,819,032	14,114,125	11,525,718	11,281,720	12,506,358
Change in net unrealized capital gains/losses	45,589	(25,661)			
Change in net unrealized foreign exchange capital gains/losses	518				
Change in net deferred income tax	<u>(183,159)</u>	<u>(122,385)</u>	<u>(35,914)</u>	<u>400,243</u>	<u>80,914</u>
Surplus, End of Year	<u>\$299,005,574</u>	<u>\$288,323,594</u>	<u>\$274,357,515</u>	<u>\$262,867,711</u>	<u>\$251,185,748</u>

**American Standard Insurance Company of Wisconsin  
Insurance Regulatory Information System  
For the Five-Year Period Ending December 31, 2011**

The company's NAIC Insurance Regulatory Information System (IRIS) results for the period under examination are summarized below. There were no unusual results.

Ratio	2011	2010	2009	2008	2007
#1 Gross Premium to Surplus	90%	98%	113%	143%	192%
#2 Net Premium to Surplus	0	0	0	0	0
#3 Change in Net Premiums Written	0	0	0	0	0
#4 Surplus Aid to Surplus	0	0	0	0	0
#5 Two-Year Overall Operating Ratio	0	0	0	0	0
#6 Investment Yield	3.5	3.8	4.1	4.5	4.6
#7 Gross Change in Surplus	4	5	4	5	5
#8 Change in Adjusted Surplus	4	5	4	5	5
#9 Liabilities to Liquid Assets	18	22	27	31	38
#10 Agents' Balances to Surplus	0	0	0	0	0
#11 One-Year Reserve Development to Surplus	0	0	0	0	0
#12 Two-Year Reserve Development to Surplus	0	0	0	0	0
#13 Estimated Current Reserve Deficiency to Surplus	0	0	0	0	0

**Growth of American Standard Insurance Company of Wisconsin**

<b>Year</b>	<b>Admitted Assets</b>	<b>Liabilities</b>	<b>Surplus as Regards Policyholders</b>	<b>Net Income</b>
2011	\$360,041,409	\$ 61,035,835	\$299,005,574	\$10,819,032
2010	358,875,307	70,551,713	288,323,594	14,114,125
2009	357,785,673	83,428,158	274,357,515	11,525,718
2008	356,834,013	93,966,302	262,867,711	11,281,720
2007	368,411,010	117,225,262	251,185,748	12,506,358
2006	355,217,394	116,618,918	238,598,476	11,767,890

<b>Year</b>	<b>Gross Premium Written</b>	<b>Net Premium Written</b>	<b>Premium Earned</b>	<b>Loss and LAE Ratio</b>	<b>Expense Ratio</b>	<b>Combined Ratio</b>
2011	\$268,247,392	\$0	\$0	0.0%	0.0%	0.0%
2010	283,947,577	0	0	0.0	0.0	0.0
2009	309,193,318	0	0	0.0	0.0	0.0
2008	376,546,379	0	0	0.0	0.0	0.0
2007	482,014,751	0	0	0.0	0.0	0.0
2006	536,013,677	0	0	0.0	0.0	0.0

As noted previously, ASIC cedes 100% of its direct writings to AFMIC through a signed Quota Share Agreement. The company has reported favorable results over the five-year examination period presented above. Assets have increased 1.4% to \$360.0 million, while capital and surplus has increased 25.3% to \$299.0 million. Gross premiums written have decreased 50.0% to \$268.2 million. This decrease was due to soft market conditions during the period under examination, as well as a portion of business being re-underwritten from nonstandard to standard in 2008, becoming written directly by AFMIC. The company has shown a net income in each of the five years under examination, with a reported net income of \$10.8 million in 2011.

**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, 2011, 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. Affiliated Agreements—It is recommended that the company create and execute a service agreement with its ultimate parent company that describes the delegation of its board's management authority over day-to-day operations in accordance with s. 611.67 (2), Wis. Stat.

Action—Compliance.

2. Deferred Premiums, Agents' Balances and Installments Booked but Deferred and Not Yet Due—It is recommended that the company report its balance relating to the sale of its premiums receivable as ceded reinsurance premiums payable in accordance with NAIC Annual Statement Instructions-Property & Casualty.

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.

### **Affiliated Balances**

During the review of the Payable to Parent, Subsidiaries and Affiliates balance, the examiners noted that the company is including federal income taxes payable to AFMIC as part of the intercompany tax allocation agreement. The balance was not considered material for purposes of this examination. Pursuant to the NAIC Annual Statement Instructions-Property & Casualty, amounts related to intercompany tax-sharing agreements should be excluded from the Payable to Parent, Subsidiaries and Affiliates balance and reported as Current Federal and Foreign Income Taxes. It is recommended that the company properly report income taxes payable as Current Federal and Foreign Income Taxes in accordance with the NAIC Annual Statement Instructions-Property & Casualty.

## VIII. CONCLUSION

American Standard Insurance Company of Wisconsin is a stock property and casualty insurer organized in 1961 under the provisions of ch. 611, Wis. Stat., as the American Standard Insurance Company. The company changed its name to that presently used in 1962. ASIC is a wholly owned subsidiary of American Family Mutual Insurance Company through its downstream holding company, AmFam, Incorporated. Collectively, AFMIC and subsidiaries are known as the American Family Mutual Insurance Group. The company is currently licensed in 23 states.

The major products marketed by the company include private passenger auto liability and auto physical damage. ASIC primarily provides insurance for motorcycles and for nonstandard private passenger automobile risks. ASIC cedes 100% of its direct writings to AFMIC through a signed Quota Share Agreement. Marketing of the company's products is accomplished through AFMIC's general agency network.

The current examination resulted in one recommendation and did not make any reclassification of account balances or adjustments to surplus as reported by the company in its year-end 2011 statutory financial statements. The examination determined that, as of December 31, 2011, the company had admitted assets of \$360,041,409, liabilities of \$61,035,835, and policyholders' surplus of \$299,005,574.

## IX. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 24 - Affiliated Balances—It is recommended that the company properly report income taxes payable as Current Federal and Foreign Income Taxes in accordance with the NAIC Annual Statement Instructions-Property & Casualty.

## 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>
David Jensen, CFE	Insurance Financial Examiner
Holly Poore	Insurance Financial Examiner
Angie Romaker	Insurance Financial Examiner
Amanda Schroeder	Insurance Financial Examiner
Derek Sliter	Insurance Financial Examiner
Victoria Chi, CISA, CISM, CRISC	IT Examiner
Tom Houston, CFE	IT Examiner
Jerry DeArmond, CFE	Loss Reserve Specialist
Fred Thornton, CFE	Quality Control Specialist

Respectfully submitted,

Stephen Elmer, CFE  
Examiner-in-Charge