

Report
of the
Examination of
Hawkeye-Security Insurance Company
Waukesha, Wisconsin
As of December 31, 2013

TABLE OF CONTENTS

	Page
I. INTRODUCTION	1
II. HISTORY AND PLAN OF OPERATION	4
III. MANAGEMENT AND CONTROL	7
IV. AFFILIATED COMPANIES	10
V. REINSURANCE	21
VI. FINANCIAL DATA	24
VII. SUMMARY OF EXAMINATION RESULTS	30
VIII. CONCLUSION.....	32
IX. SUMMARY OF COMMENTS AND RECOMMENDATIONS.....	33
X. ACKNOWLEDGMENT	34
XI. APPENDIX—SUBSEQUENT EVENT	35



State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

Scott Walker, Governor
Theodore K. Nickel, Commissioner

Wisconsin.gov

May 21, 2015

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

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:

HAWKEYE-SECURITY INSURANCE COMPANY
Waukesha, Wisconsin

and this report is respectfully submitted.

I. INTRODUCTION

The previous examination of Hawkeye-Security Insurance Company (HSIC or the company) was conducted in 2009 as of December 31, 2008. The current examination covered the intervening period ending December 31, 2013, and included a review of such 2014 transactions as deemed necessary to complete the examination.

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

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

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

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

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

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

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

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

Independent Actuary's Review

Since January 1, 2013, the company has been a participant in a reinsurance pooling agreement with LMIC and certain of its property and casualty insurance subsidiaries. The company's net loss and loss adjustment expense reserves are the product of the reserves of the Liberty Pool and the company's participation percentage in the pool.

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

II. HISTORY AND PLAN OF OPERATION

HSIC was incorporated under the laws of the state of Wisconsin on June 24, 1960, as Tower Fire and Casualty, Inc., and commenced business on January 16, 1961. Tower Fire and Casualty, Inc., was organized as a subsidiary of Catholic Knights Insurance Society, a Wisconsin-domiciled fraternal benefit society, to offer property and casualty products to its membership. The company changed its name to Tower Insurance Company, Inc., on January 3, 1961.

In May 1972, a controlling interest in the company was purchased by Fiduciaries, Inc., a publicly held holding company. During the period between December 15, 1978, and March 5, 1979, through a complex series of mergers and corporate reorganizations, the company and its parent, Fiduciaries, Inc., were merged into a newly created Wisconsin insurer, Custodian Insurance Company, Inc., with the latter company surviving.

Custodian Insurance Company, Inc., an indirect wholly owned subsidiary of Guardian Royal Exchange, plc (GRE), was incorporated on February 23, 1979. It commenced business on March 5, 1979, effective with the final merger transaction with the company. This final merger transaction dissolved the existence of the original company as an independent entity and cancelled all of its issued and outstanding common stock. The surviving Custodian Insurance Company, Inc., changed its name to Tower Insurance Company, Inc., concurrent to the final merger transaction. In this way, the company became an indirect wholly owned subsidiary of GRE.

On April 18, 1996, Atlas Assurance Company of America (Atlas), a New York-domiciled company in the GRE holding company system, received permission to acquire control of the company. GRE sold its United States operations, including the company, to LMIC on May 10, 1999. The current holding company structure is described in the section of this report captioned "Affiliated Companies."

The company, then still known as Tower Insurance Company, Inc., had stopped writing new business in 1999 and renewals were transferred to other affiliates, as permitted. On October 30, 2001, LMIC entered into an agreement with OneBeacon Corporation (OneBeacon)

under which companies of LMIC's Regional Agency Markets strategic business unit would have the sole right to solicit the agents of OneBeacon in 42 states. OneBeacon withdrew its lines of business in those 42 states, but kept its licenses. LMHC designated the company to conduct this arrangement in the states of Minnesota, Wisconsin, Missouri, Iowa, North Dakota, South Dakota, Nebraska, and Kansas. LMIC also acquired the rights to the Hawkeye-Security name.

On March 4, 2002, the company changed its name to Hawkeye-Security Insurance Company.

On August 15, 2003, the Liberty Insurance Holdings, Inc. holding company system was reorganized into what became known as the Peerless Intercompany Reinsurance Pool (Peerless Pool). The Liberty-USA Corporation holding company system was contributed to Peerless Insurance Company (PIC) by the transfer of stock from Liberty Insurance Holdings Inc. to LIH US P&C Corporation, a Delaware holding company. Liberty-USA Corporation then owned 100% of the outstanding shares of Peerless Indemnity Insurance Company, which in turn owned 100% of the outstanding shares of HSIC. As discussed later in this report, effective January 1, 2013, the Peerless Pool merged into the Liberty Pool.

Effective June 30, 2006, the company moved its statutory home office from Pewaukee, Wisconsin, to Waukesha, Wisconsin.

Effective October 23, 2006, the Peerless Indemnity Insurance Company transferred ownership of the company and certain other affiliates to PIC via a series of extraordinary stock dividends. These transfers were to better align the underwriting companies within the regional companies division of Liberty Mutual Agency Markets as a direct subsidiary of PIC.

As of December 31, 2013, the company was licensed in the following 13 states:

Colorado	Michigan	Nebraska
Illinois	Minnesota	North Dakota
Indiana	Missouri	South Dakota
Iowa	Montana	Wisconsin
Kansas		

In 2013, the company wrote direct premium in the following states:

Missouri	\$ 6,947,080	37.8%
Wisconsin	5,815,459	31.6
Minnesota	2,566,815	13.9
Kansas	1,447,173	7.9
Iowa	819,477	4.4
Nebraska	805,087	4.3
North Carolina	<u>272</u>	<u>0.1</u>
Total	<u>\$18,401,363</u>	<u>100.0%</u>

The company's major products include worker's compensation, commercial multiple peril, other liability – occurrence, commercial auto liability, and auto physical damage. As a result of strategic business unit restructuring beginning in 2012, the company has undergone a renewal conversion where there are no renewals or new business under HSIC. As a result, the number of agents for HSIC has markedly decreased compared to prior years. The following table is a summary of the net insurance premiums written by the company in 2013. The growth of the company is discussed in the "Financial Data" section of this report.

Line of Business	Direct Premium	Reinsurance Assumed	Reinsurance Ceded	Net Premium
Fire	\$ 131,724	\$0	\$ 131,724	\$0
Allied lines	163,193	0	163,193	0
Commercial multiple peril	4,458,665	0	4,458,665	0
Inland marine	283,952	0	283,952	0
Earthquake	172,739	0	172,739	0
Worker's compensation	7,108,508	0	7,108,508	0
Other liability – occurrence	4,443,462	0	4,443,462	0
Other liability – claims made	23,728	0	23,728	0
Products liability – occurrence	17,453	0	17,453	0
Commercial auto liability	1,109,096	0	1,109,096	0
Auto physical damage	473,408	0	473,408	0
Burglary and theft	720	0	720	0
Boiler and machinery	<u>14,715</u>	<u>0</u>	<u>14,715</u>	<u>0</u>
Total All Lines	<u>\$18,401,363</u>	<u>\$0</u>	<u>\$18,401,363</u>	<u>\$0</u>

III. MANAGEMENT AND CONTROL

Board of Directors

The board of directors consists of seven members. All directors are elected annually to serve a one-year term. Officers are elected at the board's annual meeting. Members of the company's board of directors may also be members of other boards of directors in the holding company group. All board members have executive management positions within the holding company structure and they receive no distinct and separate compensation for service as directors.

Currently the board of directors consists of the following persons:

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

Officers of the Company

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

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

* The 2013 compensation for the executive officers only includes the allocated amount of incurred salary expenses to the company based on its pool participation percentage, which is 0.0%. This includes only the allocated amount of incurred expenses relating to LMIC's "Executive Partnership Plan" and not its associated liability.

** New officer elected June 16, 2014.

Committees of the Board

The company's bylaws permit the appointment of committees to exercise the powers of the board and the management of the business affairs of the company to the extent authorized by law and by board resolution, with certain named exclusions; however, the board did not appoint any committees during the examination period. Board committees appointed by the LMHC board are the following:

Audit Committee

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

Risk Committee

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

Investment Committee

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

Compensation Committee

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

Contributions Committee

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

**Nominating and Governance
Committee**

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

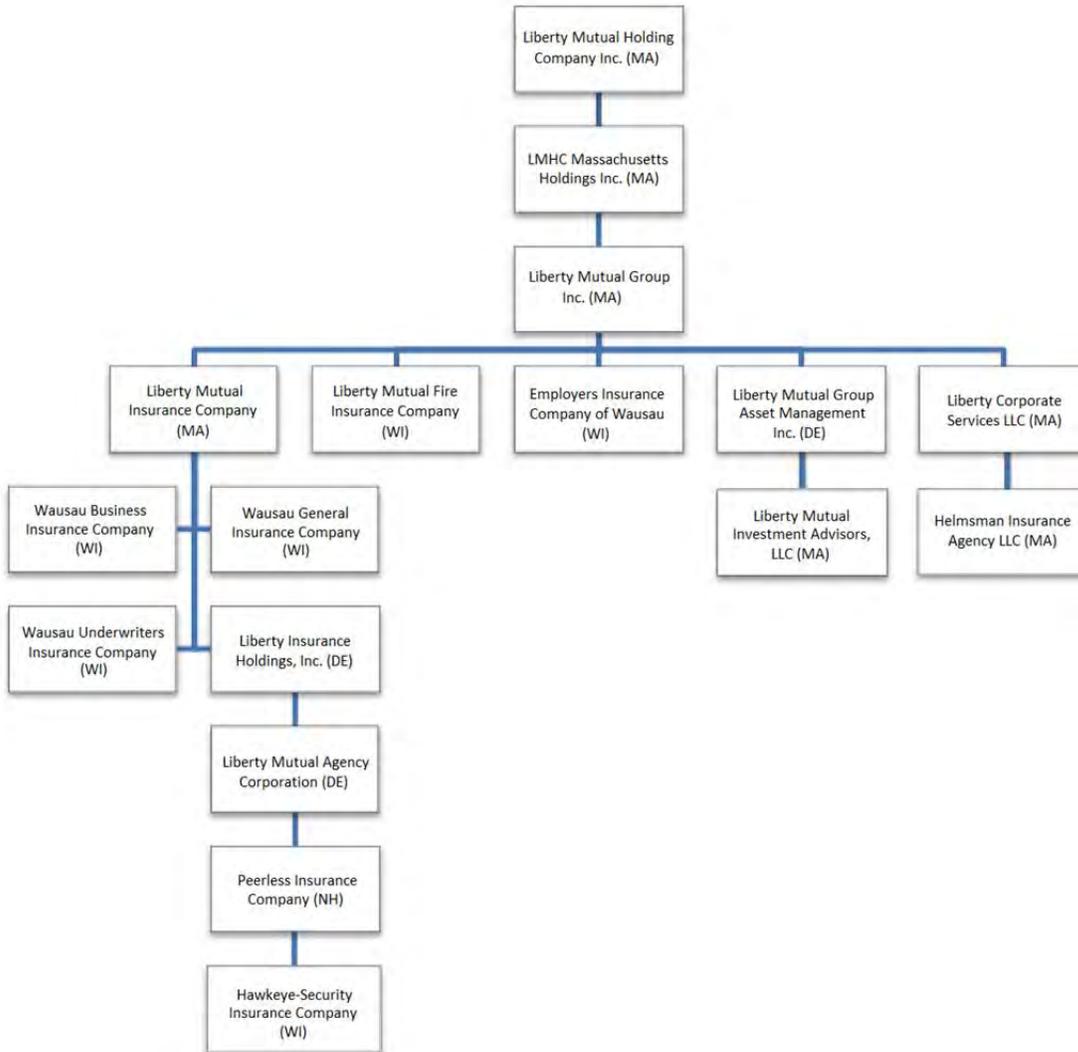
Executive Committee

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

IV. AFFILIATED COMPANIES

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

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



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

HSIC is a member of the Liberty Mutual Group, a multinational holding company system under the control of LMHC. As of December 31, 2013, LMHC exercised direct or indirect control of 247 legal entities, including 163 stock corporations, 68 limited liability companies, 3 mutual insurance companies, 4 Lloyds insurance companies, 1 reciprocal insurance company, 5 limited partnerships and 3 “other” entities. Liberty Mutual Group Inc. (LMGI) is a diversified international group of insurance companies offering a wide range of insurance products and services to businesses and individuals operating in 27 countries, with 57 property and casualty insurers, 1 life insurer, 7 insurance brokerages and agencies, and 9 providers of ancillary insurance-related services. Its international unit operates local companies to provide insurance products and services to small businesses and individuals in Argentina, Brazil, Chile, China (including Hong Kong), Colombia, Ecuador, Ireland, India, Poland, Portugal, Russia, Singapore, Spain, Thailand, Turkey, the United Kingdom, Venezuela and Vietnam. The other 173 entities are other insurance or reinsurance companies outside the United States, holding companies, inactive or conducting miscellaneous activities such as investment management or investment advisory services.

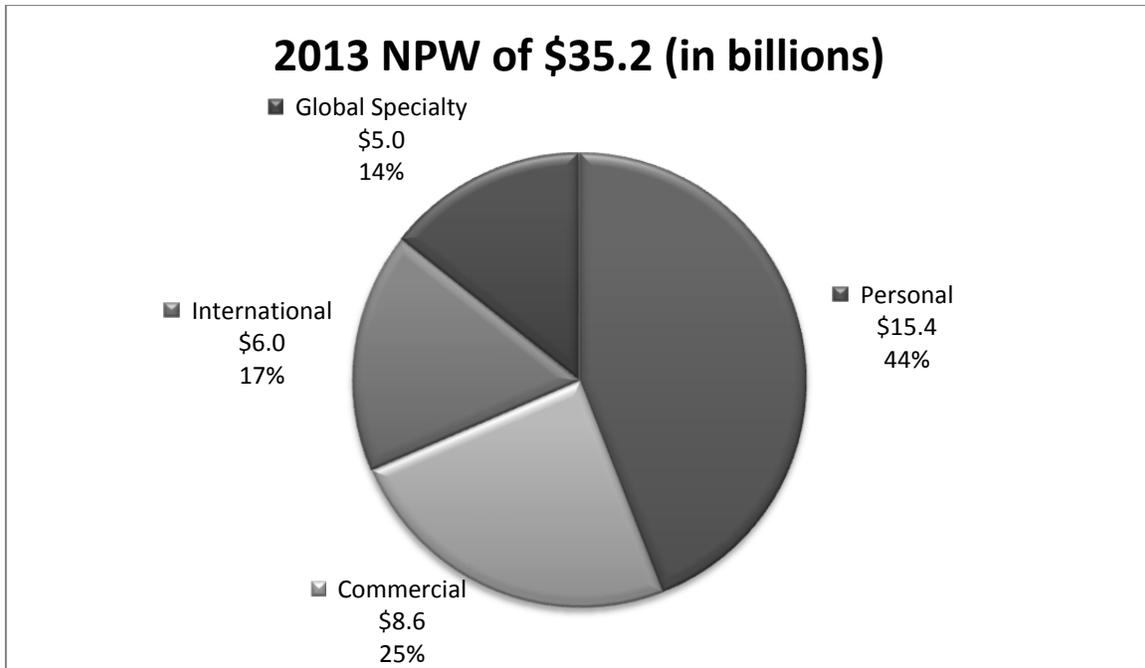
The size and complexity of the Liberty Mutual Group makes the description of each legal entity within the holding company system impractical in the context of this examination report. Therefore, this report will confine its discussion of specific entities to the ultimate parent of the holding company system, LMHC, and other affiliates with whom HSIC has a significant contractual or operational relationship. Written agreements with affiliates will be described following the summary of companies.

Liberty Mutual Holding Company Inc.

LMHC was incorporated under the laws of the Commonwealth of Massachusetts on November 28, 2001. LMHC serves as the ultimate holding company for the Liberty Mutual Group. It directly holds the stock of LMHC Massachusetts Holdings Inc. (LMHC-MA) and

maintains headquarters in Boston, Massachusetts. LMHC employs more than 50,000 people in approximately 900 offices worldwide, and operates primarily through four independent strategic business units (SBUs): Personal Insurance, Commercial Insurance, Liberty International, and Global Specialty. The holding company group also has a segment devoted to investment management of the insurers.

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



Personal Insurance

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

Commercial Insurance

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

Liberty International

This SBU sells property, casualty, health, and life insurance products to individuals and businesses in four market segments: Latin America and Iberia; Emerging Europe; Asia; and Large Emerging Markets. Private passenger automobile is the single largest line of business.

Global Specialty

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

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

LMHC Massachusetts Holdings Inc.

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

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

Liberty Mutual Group Inc.

LMGI was incorporated under the laws of the Commonwealth of Massachusetts on November 28, 2001. The company serves as an intermediate stock holding company within the mutual holding company system. It directly holds the stock of LMIC, Liberty Mutual Fire Insurance Company (LMFIC), Employers Insurance Company of Wausau (EICOW), and other insurance and non-insurance entities. It is the primary entity used to raise funds for the Liberty Mutual Group, primarily through the issuance of short-term and long-term debt instruments to unrelated third parties. Headquarters are maintained in Boston, Massachusetts.

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

Significant Affiliates

Liberty Mutual Insurance Company

LMIC was incorporated under the laws of the Commonwealth of Massachusetts on January 1, 1912, and commenced business on July 1, 1912. LMIC is a diversified property and casualty insurer of commercial and personal lines, with distribution through captive sales representatives, telesales counselors, third-party producers and the Internet. The company is licensed in all 50 states of the United States, the District of Columbia, Puerto Rico, the U.S. Virgin Islands, Canada, and in various other foreign countries. Headquarters are maintained in Boston, Massachusetts. LMIC has a 50% net participation in the Liberty Pool.

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

Liberty Mutual Fire Insurance Company

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

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

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

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

Employers Insurance Company of Wausau

EICOW was originally incorporated as a mutual company in the state of Wisconsin on August 21, 1911, under the name Employers Mutual Liability Insurance Company of Wisconsin from inception until September 1, 1979, when the company changed its name to EMPLOYERS INSURANCE OF WAUSAU A Mutual Company (Employers).

Effective on November 22, 2001, EMPLOYERS INSURANCE OF WAUSAU A Mutual Company was restructured into a mutual holding company pursuant to the provisions of ch. 644, Wis. Stat. This restructuring was approved by the Office of the Commissioner of Insurance (OCI) on November 19, 2001, following a public hearing, and was approved by vote of the policyholder members of Employers on November 20, 2001. Pursuant to the mutual holding company restructuring, Employers became a stock company and was renamed Employers Insurance Company of Wausau, effective November 21, 2001. Thereafter, 100% of the stock of EICOW was owned by the newly formed Employers Insurance of Wausau Mutual Holding Company. Effective on March 19, 2002, Employers Insurance of Wausau Mutual Holding Company was merged into LMHC. Since that time, policyholders of EICOW have been members of LMHC.

EICOW is currently licensed in all 50 states, the District of Columbia, Puerto Rico, U.S. Virgin Islands, Canada, and in various other foreign countries. The worker's compensation line of business provided 77% of direct premiums written in 2013. EICOW has an 8% net participation in the Liberty Pool.

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

Wausau Business Insurance Company

Wausau Business Insurance Company (WBIC) was incorporated on June 30, 1987, as Westwood Insurance Company, under the laws of the state of Illinois to effect a conversion of

Canners Exchange Subscribers, an Illinois reciprocal organized in 1907, to a stock company on July 1, 1987. Canners Exchange Subscribers, the predecessor to WBIC, became affiliated with Employers on January 1, 1983, when all of the outstanding shares of its attorney-in-fact corporation, Lansing B. Warner, Inc., were purchased by Wausau Service Corporation. On September 1, 1990, the company redomiciled to Wisconsin and changed its name to that presently used.

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

As of December 31 2013, WBIC reported admitted assets of \$43.6 million, liabilities of \$18.5 million, policyholders' surplus of \$25.1 million, and a net income of \$6.2 million. WBIC was examined concurrently with HSIC as of December 31, 2013, and the results of that examination were expressed in a separate report.

Wausau General Insurance Company

Wausau General Insurance Company (WGIC) was incorporated under the laws of the state of Illinois on October 10, 1972, as Illinois Employers Insurance Company of Wausau, and commenced business on November 29, 1972. On April 30, 1991, the name was changed to that presently used. WGIC was redomiciled from Illinois to Wisconsin effective August 1, 1999.

WGIC is a multiline property and casualty company licensed in 9 states. The worker's compensation line of business provided 100% of direct premiums written in 2013. WGIC has a 0% net participation in the Liberty Mutual Insurance Company Reinsurance Pool. The corporation is a wholly owned subsidiary of Liberty Mutual Insurance Company. The 2013 annual statement reported admitted assets of \$12.2 million, liabilities of \$0.7 million, policyholders' surplus of \$11.5 million, and a net income of \$0.6 million. WGIC was examined concurrently with HSIC as of December 31, 2013, and the results of that examination were expressed in a separate report.

Wausau Underwriters Insurance Company

Wausau Underwriters Insurance Company (WUIC) was incorporated on September 27, 1979, as Wausau Insurance Company, under the laws of the state of Wisconsin to effect a change in the corporate domicile from Arkansas to Wisconsin which was consummated on January 1, 1980.

The company had its origins in the Select Risk Insurance Company, an Arkansas-domiciled insurer formed in 1959 to become successor to the Select Risk Mutual Insurance Company, which had itself been organized in August 1954. Conversion from the mutual plan to a stock corporation was completed on July 1, 1959. The corporate title underwent many changes over the years. The corporate title was changed on October 1, 1959, to Southern Grange Insurance Company; on February 11, 1963, to VICO Insurance Company; on November 17, 1964, to Volkswagen Insurance Company; and on March 15, 1978, to Wausau Underwriters Insurance Company. Administrative offices were moved from St. Louis, Missouri, to Wausau, Wisconsin, in late 1980. WUIC became affiliated with EICOW when it was purchased from VICO Corporation of Englewood Cliffs, New Jersey, on December 30, 1977.

WUIC is a multiline property and casualty company licensed in all 50 states, Puerto Rico, the U.S. Virgin Islands, and the District of Columbia. A small amount of business is also conducted in various foreign jurisdictions. The worker's compensation line of business provided approximately 60% of direct premiums written in 2013. WUIC has a 0% net participation in the Liberty Pool.

As of December 31, 2013, WUIC reported admitted assets of \$99.7 million, liabilities of \$38.6 million, policyholders' surplus of \$61.1 million, and a net income of \$9.0 million. WUIC was examined concurrently with HSIC as of December 31, 2013, and the results of that examination were expressed in a separate report.

Liberty Mutual Group Asset Management Inc.

Liberty Mutual Group Asset Management Inc. (LMGAM) was organized under the laws of the state of Delaware on April 25, 2011. LMGAM provides centralized investment management services to LMGI and its four SBUs with the primary objective of contributing to the

capital growth of LMGI using a risk-controlled approach to investments in domestic and international fixed income, corporate debt, real estate, natural resources, and both private and public equities.

As of December 31, 2013, LMGAM reported assets of \$90.9 million, liabilities of \$53.0 million, equity of \$37.9 million, and a net income of \$6.8 million.

Agreements with Affiliates

In addition to common staffing and management control, the company's relationship to its affiliates is affected by various written agreements and undertakings. Reinsurance Agreements are described in section V of the report titled "Reinsurance." A brief summary of the other agreements and undertakings follows, arranged by counterparty and effective date. Unless otherwise specified, amounts owing between the parties are to be settled within 45 days after the end of the calendar quarter.

Liberty Mutual Holding Company Inc.

Federal Tax Sharing Agreement

Effective January 1, 2002, the company entered into a Federal Tax Sharing Agreement with LMHC and all of the parties of LMGI. Under this agreement, LMHC files a consolidated U.S. federal income tax return that includes the company and other affiliates of the holding company system.

The agreement sets forth the rights and obligations of the parties to the agreement with respect to the determination and settlement of federal income tax liabilities as well as the allocation of LMGI's consolidated U.S. federal income tax liability in accordance with a rational systematic formula. The agreement provides for computation of tax, settlement of balances between affiliates, tax sharing, filing the return, audits and other adjustments, dispute resolution and other administrative requirements.

The agreement calls for the settling of estimated federal tax payments on the 12th day of April, June, September, December and March. Final settlement is due within 30 days of the receipt of invoice. The agreement has provisions for members entering or departing the group and provides for successors and assigns.

Liberty Mutual Insurance Company

Management Services Agreement

Effective January 1, 2013, the company entered into a Management Services Agreement with LMIC. Under this agreement, LMIC is to provide all services essential to the day-to-day operation of HSIC and any additional services required by the company as negotiated between the parties.

For services provided, the company shall reimburse LMIC for the reasonable cost of performing any of the services provided pursuant to this agreement. Charges for such services shall include direct and directly allocable expenses to the company by LMIC in conformity with customary insurance accounting practices. Either party may terminate this agreement at any time by providing 90 days' written notice. The agreement may be terminated immediately by either company if (a) LMIC fails to perform services in accordance with this agreement and such failure is not cured within 30 days, (b) there is nonpayment of costs by one party to the other, (c) either company's insurance license is suspended, revoked, or otherwise restricted, or (d) a change in control where LMIC loses a majority control of HSIC's board of directors. In the event of termination, LMIC shall continue to provide such services for up to 90 days as reasonably necessary to transfer service responsibilities to a new party.

Liberty Mutual Group Asset Management Inc.

Investment Management Agreement

Effective July 1, 2011, the company entered into an Investment Management Agreement with LMGAM. Under this agreement, LMGAM acts as the company's agent and attorney-in-fact with respect to its investment portfolio. Subject to the terms and conditions of the investment policy and guidelines (included as appendices to the agreement), LMGAM has complete day-to-day discretionary control, including the power to make acquisitions and disposals of investments and issue instructions to brokers and custodians.

For services provided, LMGAM receives a monthly fee based on a percentage of the average market value under U.S. GAAP of all cash and securities in the account for that month. Amounts owing between the parties are billed on a monthly basis and settled within 45 days after

the end of month. This agreement may be terminated by LMGAM upon 180 days' written notice to the company, and terminated by the company at any time upon written notice to LMGAM. Upon termination, LMGAM shall have no further investment responsibility for assets in the company's account but shall have a reasonable time, not to exceed 90 days, to transfer assets to a custodian of the company's selection.

Cash Management Agreement

Effective April 1, 2012, the company entered into a Cash Management Agreement with LMGAM. Under this agreement, LMGAM manages an investment pool on behalf of participating members of LMGI, investing and reinvesting funds contributed by the members in short-term obligations of banks, corporations, and the U.S. and Canadian federal governments maturing in 365 days or less from the date of purchase. The agreement allows LMGAM to jointly acquire short-term investments for the pool participants and each participant maintains a proportionate share ownership of the investments based on contributions to the account. LMGAM has the authority to hold the investments on behalf of participants; sell, purchase, transfer or otherwise acquire or dispose of investments; reinvest dividends or interest earned; and collect and credit to the account all proceeds on behalf of the company and the other participants.

For services provided, LMGAM receives a monthly fee based on a percentage of the average market value under U.S. GAAP of all cash and securities in the account for that month. Amounts owing between the parties are billed on a monthly basis and settled within 45 days after the end of month. The agreement may be terminated: (i) at the end of any business day by the company upon prior written notice to LMGAM; or (ii) at any time by LMGAM upon 180 days' written notice to the company.

V. REINSURANCE

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

Affiliated Pooling Agreement – Liberty Pool

HSIC participates in a pooling arrangement with certain of its affiliates (the Liberty Pool). Effective January 1, 2013, the prior Peerless Pool was terminated. The Peerless Pool participants were added into the Liberty Pool which resulted in the addition of many affiliates and changes to the net pooling percentages for some of the participants. HSIC was 0% of the prior Peerless Pool and is 0% of net Liberty Pool. After external reinsurance, the pool participants cede 100% of their net premiums written, losses, loss adjustment expenses, underwriting expenses and related balance sheet categories to LMIC. As the lead company and pool manager, LMIC administers all aspects of the pooled business, including placement of reinsurance with nonaffiliated insurers. After external reinsurance, LMIC distributes the net pooled business according to the participations listed below. Income and expenses related to investment operations and corporate taxes, including federal income taxes, are excluded from the pooled business. The table below shows the companies participating in the Liberty Pool.

Liberty Pool Participations:

	Domicile	2013 Pool %
Liberty Mutual Insurance Company	MA	50%
Peerless Insurance Company	NH	20
Employers Insurance Company of Wausau	WI	8
Liberty Mutual Fire Insurance Company	WI	8
The Ohio Casualty Insurance Company	NH	8
Safeco Insurance Company of America	NH	6
America First Insurance Company	NH	0
America First Lloyd's Insurance Company	TX	0
American Fire and Casualty Company	NH	0
American Economy Insurance Company	IN	0
American States Insurance Company	IN	0
American States Lloyd's Insurance Company	TX	0
American States Preferred Insurance Company	IN	0
Colorado Casualty Insurance Company	NH	0
Consolidated Insurance Company	IN	0
Excelsior Insurance Company	NH	0
The First Liberty Insurance Corporation	IL	0
First National Insurance Company of America	NH	0
General Insurance Company of America	NH	0

	Domicile	2013 Pool %
Golden Eagle Insurance Corporation	NH	0%
Hawkeye-Security Insurance Company	WI	0
Insurance Company of Illinois	IL	0
Indiana Insurance Company	IN	0
Liberty Insurance Corporation	IL	0
Liberty Insurance Underwriters, Inc.	IL	0
Liberty County Mutual Insurance Company	TX	0
Liberty Lloyd's of Texas Insurance Company	TX	0
Liberty Mutual Mid-Atlantic Insurance Company	MA	0
Liberty Northwest Insurance Corporation	OR	0
Liberty Personal Insurance Company	MA	0
Liberty Surplus Insurance Corporation	NH	0
LM General Insurance Company	IL	0
LM Insurance Corporation	IL	0
Mid-American Fire & Casualty Company	NH	0
Montgomery Mutual Insurance Company	MA	0
The Midwestern Indemnity Company	NH	0
National Insurance Association	IN	0
The Netherlands Insurance Company	NH	0
North Pacific Insurance Company	OR	0
Ohio Security Insurance Company	NH	0
Oregon Automobile Insurance Company	OR	0
Peerless Indemnity Insurance Company	IL	0
Safeco Insurance Company of Illinois	IL	0
Safeco Insurance Company of Indiana	IN	0
Safeco Insurance Company of Oregon	OR	0
Safeco Lloyds Insurance Company	TX	0
Safeco National Insurance Company	NH	0
Safeco Surplus Lines Insurance Company	NH	0
Wausau Business Insurance Company	WI	0
Wausau General Insurance Company	WI	0
Wausau Underwriters Insurance Company	WI	0
West American Insurance Company	IN	0

100% Quota Share Affiliated Companies:

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

Lines covered: All lines

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

Effective: January 1, 2013

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

Pool Reinsurance Program

As previously discussed, the company participates in the Liberty Pool, which is administered by LMIC. A summary of the major external reinsurance programs impacting the Liberty Pool is discussed in the concurrent examination report of LMFIC.

VI. FINANCIAL DATA

The following financial statements reflect the financial condition of the company as reported to the Commissioner of Insurance in the December 31, 2013, annual statement. Also included in this section are schedules that reflect the growth of the company, NAIC Insurance Regulatory Information System (IRIS) ratio results for the period under examination, and the compulsory and security surplus calculation. Adjustments made as a result of the examination are noted at the end of this section in the area captioned "Reconciliation of Surplus per Examination."

Hawkeye-Security Insurance Company
Assets
As of December 31, 2013

	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	\$12,294,907	\$0	\$12,294,907
Cash, cash equivalents, and short-term investments	466,620	0	466,620
Securities lending reinvested collateral assets	170,382	0	170,382
Investment income due and accrued	44,362	0	44,362
Reinsurance:			
Amounts recoverable from reinsurers	946,593	0	946,593
Receivable from parent, subsidiaries, and affiliates	<u>310,947</u>	<u>0</u>	<u>310,947</u>
Total Assets	<u>\$14,233,811</u>	<u>\$0</u>	<u>\$14,233,811</u>

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

Current federal and foreign income taxes		\$ 10,919
Net deferred tax liability		3,000
Ceded reinsurance premiums payable (net of ceding commissions)		1,248,561
Payable to parent, subsidiaries, and affiliates		10,921
Payable for securities lending		<u>170,382</u>
Total liabilities		1,443,783
Common capital stock	\$2,000,000	
Gross paid in and contributed surplus	7,784,101	
Unassigned funds (surplus)	<u>3,005,927</u>	
Surplus as regards policyholders		<u>12,790,028</u>
Total Liabilities and Surplus		<u>\$14,233,811</u>

**Hawkeye-Security Insurance Company
Summary of Operations
For the Year 2013**

Investment Income		
Net investment income earned	<u>\$136,883</u>	
Net investment gain (loss)		\$136,883
Net income (loss) after dividends to policyholders but before federal and foreign income taxes		136,883
Federal and foreign income taxes incurred		<u>42,000</u>
Net Income		<u>\$ 94,883</u>

**Hawkeye-Security Insurance Company
Cash Flow
For the Year 2013**

Premiums collected net of reinsurance		\$1,248,561
Net investment income		<u>210,214</u>
Total		1,458,775
Benefit- and loss-related payments	\$ 946,593	
Federal and foreign income taxes paid (recovered)	<u>15,054</u>	
Total deductions		<u>961,647</u>
Net cash from operations		497,128
Proceeds from investments sold, matured, or repaid:		
Bonds	\$3,509,498	
Other invested assets	<u>564,604</u>	
Total investment proceeds		4,074,102
Cost of investments acquired (long-term only):		
Bonds	3,448,079	
Other invested assets	<u>472,986</u>	
Total investments acquired		<u>3,921,065</u>
Net cash from investments		153,037
Cash from financing and miscellaneous sources:		
Other cash provided (applied)	<u>(393,686)</u>	
Net cash from financing and miscellaneous sources		<u>(393,686)</u>
Reconciliation:		
Net change in cash, cash equivalents, and short-term investments		256,479
Cash, cash equivalents, and short-term investments:		
Beginning of year		<u>210,141</u>
End of Year		<u>\$ 466,620</u>

**Hawkeye-Security Insurance Company
Compulsory and Security Surplus Calculation
December 31, 2013**

Assets		\$14,233,811
Less liabilities		<u>1,443,783</u>
Adjusted surplus		12,790,028
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>\$10,790,028</u>
Adjusted surplus (from above)		\$12,790,028
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>\$ 9,990,028</u>

**Hawkeye-Security Insurance Company
Analysis of Surplus
For the Five-Year Period Ending December 31, 2013**

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

	2013	2012	2011	2010	2009
Surplus, beginning of year	\$12,698,145	\$12,531,628	\$12,365,739	\$12,191,442	\$11,860,222
Net income	94,883	148,517	201,359	113,387	255,660
Change in net deferred income tax	(7,000)	22,000	(35,470)	60,910	75,560
Change in non-admitted assets	<u>4,000</u>	<u>(4,000)</u>	<u> </u>	<u> </u>	<u> </u>
Surplus, End of Year	<u>\$12,790,028</u>	<u>\$12,698,145</u>	<u>\$12,531,628</u>	<u>\$12,365,739</u>	<u>\$12,191,442</u>

**Hawkeye-Security Insurance Company
Insurance Regulatory Information System
For the Five-Year Period Ending December 31, 2013**

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

Ratio	2013	2012	2011	2010	2009
#1 Gross Premium to Surplus	144%	218%	341%	462%	465%
#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	1.1*	1.4*	1.9*	2.1*	3.0*
#7 Gross Change in Surplus	1	1	1	1	3
#8 Change in Adjusted Surplus	1	1	1	1	3
#9 Liabilities to Liquid Assets	11	3	12	14	3
#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

Ratio No. 6 measures the company's investment yield. This ratio has been exceptional each of the last five years. The company's low investment yield was primarily driven by a combination of the company's investment in short-term government bonds and low market interest rates during the period under examination.

Growth of Hawkeye-Security Insurance Company

Year	Admitted Assets	Liabilities	Surplus as Regards Policyholders	Net Income
2013	\$14,233,811	\$1,443,783	\$12,790,028	\$ 94,883
2012	13,093,633	395,488	12,698,145	148,517
2011	14,084,115	1,552,487	12,531,628	201,359
2010	14,056,925	1,691,186	12,365,739	113,387
2009	12,555,540	364,098	12,191,442	255,660
2008	12,533,835	673,613	11,860,222	297,925

Year	Gross Premium Written	Net Premium Written	Premium Earned	Loss and LAE Ratio	Expense Ratio	Combined Ratio
2013	\$18,401,363	\$0	\$0	0.0%	0.0%	0.0%
2012	27,654,851	0	0	0.0	0.0	0.0
2011	42,794,833	0	0	0.0	0.0	0.0
2010	57,167,278	0	0	0.0	0.0	0.0
2009	56,642,457	0	0	0.0	0.0	0.0
2008	59,428,695	0	0	0.0	0.0	0.0

The company's gross premium written has primarily decreased significantly since 2008. The company cedes 100% of its gross premium written to its affiliates without assuming any net business in return. The sole income the company generates is its investment income. The company's decreasing net income was primarily driven by a combination of the company's investment in short-term bonds and reduced investment yields due to low market interest rates during the period under examination.

Reconciliation of Surplus per Examination

No adjustments were made to surplus as a result of the examination. The amount of surplus reported by the company as of December 31, 2013, is accepted.

VII. SUMMARY OF EXAMINATION RESULTS

Compliance with Prior Examination Report Recommendations

There was one specific comment and recommendation in the previous examination report. Comments and recommendations contained in the last examination report and actions taken by the company are as follows:

1. Reporting of Agents—It is recommended that the company timely update its internal company data from its vendors concerning all the company's agent appointments and terminations.

Action—Compliance.

Summary of Current Examination Results

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

VIII. CONCLUSION

Hawkeye-Security Insurance Company became affiliated with LMHC on May 10, 1999, as a result of LMIC's purchase of the company's parent. LMIC also acquired the rights to the Hawkeye-Security Insurance Company name, which was adopted on March 4, 2002. On August 15, 2003, the Liberty Insurance Holdings Inc. holding company system was reorganized, and the company was contributed to PIC and became part of the Peerless Pool. Effective January 1, 2013, the Liberty Pool was amended and restated to adjust pooling percentages and add a number of affiliates, which included HSIC.

HSIC is a multiline property and casualty company licensed in 13 states. HSIC has a 0% net participation in the Liberty Pool. Worker's compensation is the primary line of business for HSIC which provided approximately 39% of direct premiums written in 2013. Approximately 70% of the \$18.4 million of direct premiums in 2013 were written in just two states, Missouri and Wisconsin. The 2013 annual statement reported admitted assets of \$14.2 million, liabilities of \$1.4 million, policyholders' surplus of \$12.8 million, and a net income of \$0.1 million.

The company's gross premium written has primarily decreased significantly since 2008. The company cedes 100% of its gross premium written to its affiliates without assuming any net business in return. The sole income the company generates is its investment income. The company's decreasing net income was primarily driven by a combination of the company's investment in short-term bonds and reduced investment yields due to low market interest rates during the period under examination.

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

IX. SUMMARY OF COMMENTS AND RECOMMENDATIONS

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

X. ACKNOWLEDGMENT

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

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

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

Respectfully submitted,

Karl K. Albert, CFE
Examiner-in-Charge

XI. APPENDIX—SUBSEQUENT EVENT

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

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

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

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