

Report  
of the  
Examination of  
Maple Valley Mutual Insurance Company  
Lena, Wisconsin  
As of December 31, 2012

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# State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

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

[Wisconsin.gov](http://Wisconsin.gov)

July 29, 2013

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](mailto:ociinformation@wisconsin.gov)  
Web Address: [oci.wi.gov](http://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:

MAPLE VALLEY MUTUAL INSURANCE COMPANY  
Lena, Wisconsin

and this report is respectfully submitted.

## I. INTRODUCTION

The previous examination of Maple Valley Mutual Insurance Company (the company) was conducted in 2008 as of December 31, 2007. The current examination covered the intervening period ending December 31, 2012, and included a review of such 2013 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
- Territory and Plan of Operations
- 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.

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 company, including assistance with complex transactions such as accounting for income taxes, and compilation of the annual statement. On December 20, 2010, an exemption was granted by the Commissioner, pursuant to s. Ins 50.08 (5), Wis. Adm. Code, permitting the independent auditor to perform this non-audit work for the company.

## II. HISTORY AND PLAN OF OPERATION

The company was organized in 1891 as Maple Valley Mutual Home Fire Insurance Company. Subsequent amendments to the company's articles and bylaws changed the company's name to that presently used. On January 1, 1987, the company converted from a town mutual insurer licensed under ch. 612, Wis. Stat., to a nonassessable regional domestic insurer under ch. 611, Wis. Stat.

The company is licensed only in Wisconsin and is limited by order to writing business in 21 counties. The company is currently licensed to write property and liability insurance including umbrella coverage and worker's compensation.

The major products marketed by the company include farmowners, homeowners and commercial multiple peril, fire, and allied lines. These products are marketed through independent agents. The company has approximately 175 independent agents listed, representing 45 agencies located in northeastern Wisconsin. Agents earn 10% to 17% commission on most lines of business. The company also offers contingent commissions that are based on premium volume and loss ratios.

The following table is a summary of the net insurance premiums written by the company in 2012. The growth of the company is discussed in the "Financial Data" section of this report.

Line of Business	Direct Premium	Reinsurance Ceded	Net Premium
Fire	\$ 447,141	\$ 98,362	\$ 348,779
Allied lines	298,094	65,575	232,519
Farmowners multiple peril	2,778,694	611,258	2,167,436
Homeowners multiple peril	1,595,680	351,018	1,244,662
Commercial multiple peril	540,203	118,834	421,369
Other liability – occurrence	<u>81,736</u>	<u>77,649</u>	<u>4,087</u>
Total All Lines	<u>\$5,741,548</u>	<u>\$1,322,696</u>	<u>\$4,418,852</u>

### III. MANAGEMENT AND CONTROL

#### Board of Directors

The board of directors consists of nine members. Three directors are elected annually to serve a three-year term. Officers are elected at the board's annual meeting. The board members currently receive a per diem of \$250.00 for each meeting attended and \$0.48 per mile for travel expenses.

Currently the board of directors consists of the following persons:

<b>Name and Residence</b>	<b>Principal Occupation</b>	<b>Term Expires</b>
Alvin Harlan Schuettpelz De Pere, WI	President/Treasurer	2014
Duane Joseph Magnin Oconto Falls, WI	Project Manager – Construction	2015
Dr. Gary Michael Kotecki Pound, WI	Veterinarian	2016
Francis James Wranosky Oconto Falls, WI	Farmer	2015
John Harry Matravers Oconto, WI	Owner – Hardware & Furniture Store	2016
Kenneth Herman Rosner Crivitz, WI	Retired	2014
Linda Sue Sinkula Kewaunee, WI	Farmer/Elected Official	2015
Patrick John Van De Hey Wrightstown, WI	Farmer	2016
Thomas Arlyn Bitters Lena, WI	Farmer	2014

#### Officers of the Company

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

<b>Name</b>	<b>Office</b>	<b>2012 Compensation</b>
Alvin Harlan Schuettpelz	President/Treasurer	\$151,102
Thomas Arlyn Bitters	Secretary/Vice Chairman	11,763
John Harry Matravers	Chairman of the Board	15,213

## **Committees of the Board**

The company's bylaws allow for the formation of certain committees by the board of directors. The committees at the time of the examination are listed below:

### **Executive Committee**

John H. Matravers, Chair  
Thomas A. Bitters  
Alvin H. Schuettpelz

### **Audit Committee**

John H. Matravers, Chair  
Thomas A. Bitters  
Alvin H. Schuettpelz

### **Adjusting Committee**

John H. Matravers, Chair  
Thomas A. Bitters  
Alvin H. Schuettpelz  
Robert J. Vanderheiden (Claims  
Manager – Advisory Member)

### **Investment Committee**

John H. Matravers, Chair  
Thomas A. Bitters  
Alvin H. Schuettpelz

### **Nominating Committee**

Francis J. Wranosky, Chair  
Thomas A. Bitters  
Alvin H. Schuettpelz

#### IV. REINSURANCE

The company's reinsurance portfolio and strategy is 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.

##### **Nonaffiliated Ceding Contract**

The examiners' review of the company's reinsurance portfolio revealed there is currently one ceding treaty.

Reinsurer:	Wisconsin Reinsurance Corporation
Effective date:	January 1, 2013, continuous
Termination provisions:	By either party, on any January 1, with 90 days' advanced written notice

The coverages provided under this treaty are summarized as follows:

- |                    |   |
|--------------------|---|
| Type of contract:  | Class A - Excess of Loss Reinsurance  |
| Scope:             | All casualty or liability business written by the company   |
| Retention:         | \$50,000 in respect to each and every loss occurrence   |
| Coverage:          | 100% of each and every loss, including loss adjustment expense, occurring on the business covered by this exhibit, in excess of the company's net retention of \$50,000, subject to the maximum policy limits stated below: <ol style="list-style-type: none"><li>\$1,000,000 per occurrence, single limit, combined for bodily injury and property damage liability</li><li>\$1,000,000 split limits, in any combination of bodily injury and property damage liability</li><li>\$25,000 for medical payments, per person; \$25,000 per accident</li></ol> |
| Premium:           | 30% of the premium written for each and every policy issued by the company. Subject to a minimum annual premium, which shall be 75% of the annual deposit premium of \$309,300.   |
| Ceding commission: | None  |
- |                   |   |
|-------------------|---|
| Type of contract: | Combination Umbrella Liability Quota Share and Excess of Loss Reinsurance |
| Scope:            | All business written by the company classified as Umbrella Liability      |
| Retention:        | 5% of up to \$1,000,000, each loss occurrence                             |

Coverage:	95% of losses, including loss adjustment expenses, up to \$1,000,000 each loss occurrence. 100% of \$1,000,000 in excess of \$1,000,000 each loss occurrence, up to \$2,000,000 policy limit.
Premium:	95% of net earned premium for each and every policy issued by the company. Subject to a minimum annual premium, which shall be 75% of the annual deposit premium of \$66,500.
Commission:	27.5% of the premium paid to the reinsurer
3. Type of contract:	Class C-1 First Layer Excess of Loss
Scope:	All property business written by the company
Retention:	\$100,000 with respect to each and every loss
Coverage:	100% of each and every loss, including loss adjustment expense in excess of the company's retention of \$100,000, subject to a limit of \$100,000
Premium:	The premium is calculated by multiplying the rate of 6.8% by the company's annual net premium earned, subject to the minimum rate of 5.0% and maximum rate of 15.0%. Subject to a minimum annual premium, which shall be 75% of the annual deposit premium of \$319,532.
4. Type of contract:	Class C-2 Second Layer Excess of Loss
Scope:	All property business written by the company
Retention:	\$200,000 in respect to each and every loss
Coverage:	100% of any loss, including loss adjustment expense, in excess of the company's retention of \$200,000, subject to a limit of \$300,000
Premium:	The reinsurance premium is calculated by multiplying the rate of 2.75% by the company's annual net premium written, subject to a minimum annual premium, which shall be 75% of the annual deposit premium of \$129,223
5. Type of contract:	Class C-3 Third Layer Excess of Loss
Scope:	All property business written by the company
Retention:	\$500,000 in respect to each and every loss
Coverage:	100% of any loss, including loss adjustment expense, in excess of the company's retention of \$500,000, subject to a limit of liability to the reinsurer of \$500,000
Premium:	The reinsurance premium is calculated by multiplying the rate of 1% by the company's annual net premium written,

subject to a minimum annual premium, which shall be 75% of the annual deposit premium of \$46,990

6. Type of contract: Class DE1 First Aggregate Excess of Loss Reinsurance
- Scope: All business written by the company
- Retention: 67% of net earned premium. Estimated attachment point of \$3,253,162.
- Coverage: 100% of the amount of the aggregate of net losses, including loss adjustment expense that exceed the company's retention
- Premium: The premium is calculated by multiplying the rate of 6% by the company's annual net earned premium, subject to the minimum rate of 7.5% and maximum rate of 15.0%. Subject to a minimum annual premium, which shall be 75% of the annual deposit premium of \$291,328.

## **V. FINANCIAL DATA**

The following financial statements reflect the financial condition of the company as reported to the Commissioner of Insurance in the December 31, 2012, 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."

**Maple Valley Mutual Insurance Company**  
**Assets**  
**As of December 31, 2012**

	<b>Assets</b>	<b>Nonadmitted Assets</b>	<b>Net Admitted Assets</b>
Bonds	\$ 5,665,779	\$	\$ 5,665,779
Stocks:			
Preferred stocks	113,455		113,455
Common stocks	1,446,822		1,446,822
Real estate:			
Occupied by the company	132,702		132,702
Properties held for the production of income	27,027		27,027
Cash, cash equivalents, and short-term investments	2,701,652		2,701,652
Investment income due and accrued	76,756		76,756
Premiums and considerations:			
Uncollected premiums and agents' balances in course of collection	17,986	1,221	16,765
Deferred premiums, agents' balances, and installments booked but deferred and not yet due	866,359		866,359
Current federal and foreign income tax recoverable and interest thereon	28,116		28,116
Electronic data processing equipment and software	15,728	6,296	9,432
Furniture and equipment, including health care delivery assets	101	101	
Write-ins for other than invested assets:			
Automobiles	50,986	50,986	
Net deferred tax assets	26,180*		26,180
Refundable state income taxes	<u>15,661</u>	<u>          </u>	<u>15,661</u>
<b>Total Assets</b>	<b><u>\$11,185,310</u></b>	<b><u>\$58,604</u></b>	<b><u>\$11,126,706</u></b>

\* The net deferred tax asset was incorrectly included as part of the aggregate write-ins for other than invested assets balance in the annual statement instead of being reported on the line categorized for the net deferred tax asset. The company identified and corrected this error for future financial statements. The net deferred tax asset was properly reported on the financial statement as of June 30, 2013.

**Maple Valley Mutual Insurance Company**  
**Liabilities, Surplus, and Other Funds**  
**As of December 31, 2012**

Losses		\$ 568,009
Loss adjustment expenses		41,600
Commissions payable, contingent commissions, and other similar charges		231,634
Other expenses (excluding taxes, licenses, and fees)		7,574
Taxes, licenses, and fees (excluding federal and foreign income taxes)		7,945
Unearned premiums		2,833,988
Advance premium		79,999
Ceded reinsurance premiums payable (net of ceding commissions)		<u>117,924</u>
Total liabilities		3,888,673
Unassigned funds (surplus)	<u>\$7,238,033</u>	
Surplus as regards policyholders		<u>7,238,033</u>
Total Liabilities and Surplus		<u>\$11,126,706</u>

**Maple Valley Mutual Insurance Company**  
**Summary of Operations**  
**For the Year 2012**

<b>Underwriting Income</b>		
Premiums earned		\$4,188,609
Deductions:		
Losses incurred	\$1,940,758	
Loss adjustment expenses incurred	378,047	
Other underwriting expenses incurred	<u>1,846,025</u>	
Total underwriting deductions	4,164,830	<u>4,164,830</u>
Net underwriting gain (loss)		23,779
<b>Investment Income</b>		
Net investment income earned	237,087	
Net realized capital gains (losses)	<u>71,877</u>	
Net investment gain (loss)		308,964
<b>Other Income</b>		
Write-ins for miscellaneous income:		
Policy and installment fees	205,107	
Other income	<u>5</u>	
Total other income		<u>205,112</u>
Net income (loss) before dividends to policyholders and before federal and foreign income taxes		<u>537,855</u>
Net income (loss) after dividends to policyholders but before federal and foreign income taxes		537,855
Federal and foreign income taxes incurred		<u>158,820</u>
Net Income		<u>\$ 379,035</u>

**Maple Valley Mutual Insurance Company**  
**Cash Flow**  
**For the Year 2012**

Premiums collected net of reinsurance		\$4,393,832
Net investment income		292,893
Miscellaneous income		<u>205,112</u>
Total		4,891,837
Benefit- and loss-related payments	\$1,856,555	
Commissions, expenses paid, and aggregate write-ins for deductions	2,146,172	
Federal and foreign income taxes paid (recovered)	<u>31,450</u>	
Total deductions		<u>4,034,177</u>
Net cash from operations		857,660
Proceeds from investments sold, matured, or repaid:		
Bonds	\$980,353	
Stocks	<u>96,639</u>	
Total investment proceeds		1,076,992
Cost of investments acquired (long-term only):		
Bonds	600,845	
Stocks	183,399	
Real estate	<u>31,308</u>	
Total investments acquired		<u>815,552</u>
Net cash from investments		261,440
Cash from financing and miscellaneous sources:		
Other cash provided (applied)	<u>(22,196)</u>	
Net cash from financing and miscellaneous sources		<u>(22,196)</u>
<b>Reconciliation:</b>		
Net change in cash, cash equivalents, and short-term investments		1,096,904
Cash, cash equivalents, and short-term investments:		
Beginning of year		<u>1,604,748</u>
End of Year		<u>\$2,701,652</u>

**Maple Valley Mutual Insurance Company  
Compulsory and Security Surplus Calculation  
December 31, 2012**

Assets		\$11,126,706
Less liabilities		<u>3,888,673</u>
Adjusted surplus		7,238,033
Annual premium:		
Lines other than accident and health	\$4,418,852	
Factor	<u>20%</u>	
Compulsory surplus (subject to a minimum of \$2 million)		<u>2,000,000</u>
Compulsory Surplus Excess (or Deficit)		<u>\$ 5,238,033</u>
Adjusted surplus (from above)		\$ 7,238,033
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>\$ 4,438,033</u>

**Maple Valley Mutual Insurance Company  
Analysis of Surplus  
For the Five-Year Period Ending December 31, 2012**

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

	2012	2011	2010	2009	2008
Surplus, beginning of year	\$6,852,314	\$6,870,575	\$6,606,712	\$5,748,557	\$5,493,724
Net income	379,035	(2,432)	153,666	738,665	463,333
Change in net unrealized capital gains/losses	(15,430)	(25,064)	108,146	129,650	(210,099)
Change in net deferred income tax	19,920	18,490	12,411	(26,142)	(502)
Change in non-admitted assets	<u>2,194</u>	<u>(9,255)</u>	<u>(10,360)</u>	<u>15,982</u>	<u>2,101</u>
Surplus, End of Year	<u>\$7,238,033</u>	<u>\$6,852,314</u>	<u>\$6,870,575</u>	<u>\$6,606,712</u>	<u>\$5,748,557</u>

**Maple Valley Mutual Insurance Company  
Insurance Regulatory Information System  
For the Five-Year Period Ending December 31, 2012**

The company's NAIC Insurance Regulatory Information System (IRIS) results for the period under examination are summarized below.

Ratio	2012	2011	2010	2009	2008
#1 Gross Premium to Surplus	79%	76%	70%	72%	85%
#2 Net Premium to Surplus	61	58	52	54	65
#3 Change in Net Premiums Written	11	11	1	-4	-3
#4 Surplus Aid to Surplus	0	0	0	0	0
#5 Two-Year Overall Operating Ratio	92	96	84	76	85
#6 Investment Yield	3*	3*	3*	3*	3*
#7 Gross Change in Surplus	6	0	4	15	5
#8 Change in Adjusted Surplus	6	0	4	15	5
#9 Liabilities to Liquid Assets	30	30	29	29	35
#10 Agents' Balances to Surplus	0	0	0	0	0
#11 One-Year Reserve Development to Surplus	-1	-4	-3	-1	1
#12 Two-Year Reserve Development to Surplus	-3	-2	-2	1	5
#13 Estimated Current Reserve Deficiency to Surplus	-1	-2	-2	4	-5

\* Ratio No. 6 measures the profitability and general quality of the company's investment portfolio. The exceptional results in 2008 through 2012 were due to the low interest rate environment of recent years.

### Growth of Maple Valley Mutual Insurance Company

Year	Admitted Assets	Liabilities	Surplus as Regards Policyholders	Net Income
2012	\$11,126,706	\$3,888,673	\$7,238,033	\$379,035
2011	10,380,649	3,528,335	6,852,314	(2,432)
2010	10,250,804	3,380,229	6,870,575	153,666
2009	9,878,772	3,272,060	6,606,712	738,665
2008	9,442,832	3,694,275	5,748,557	463,333
2007	8,937,265	3,443,541	5,493,724	293,103

Year	Gross Premium Written	Net Premium Written	Premium Earned	Loss and LAE Ratio	Expense Ratio	Combined Ratio
2012	\$5,741,548	\$4,418,852	\$5,500,644	55%	37%	92%
2011	5,213,161	3,972,258	4,968,224	69	36	105
2010	4,808,356	3,584,327	4,802,587	65	36	101
2009	4,765,843	3,566,391	4,817,894	38	41	79
2008	4,874,089	3,729,612	4,866,942	54	34	88
2007	4,910,525	3,860,754	3,990,675	63	34	97

Gross premium written and net premium written have increased by 17% and 14%, respectively, over the past five years. In 2010 the company added three counties to its writing territory, and it is currently authorized to write in 21 counties in northeastern Wisconsin. The net loss and loss adjusting expense ratio has averaged 56% during the period under examination. It reached the highest value of 69% in 2011, when the company reported a net loss of \$2,432, the only net loss in the last five years. The expense ratio has averaged 36.8% in the five-year period under examination. Surplus has increased 32% since 2007 and admitted assets have increased 24% during the same period.

#### 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, 2012, is accepted.

## **VI. 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**

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

## **VII. CONCLUSION**

As of December 31, 2012, the company reported assets of \$11,126,706, liabilities of \$3,888,673, and policyholders' surplus of \$7,238,033.

During the period under examination, the company has increased admitted assets by 24% and surplus by 32%. At the same time, liabilities have increased by 13%. The company has experienced steady growth in premium volume, with a 17% increase in gross premium written. In 2010 the company expanded its writing territory by three counties, and it is currently authorized to write in 21 counties in northeastern Wisconsin. The company reported net income in four of the past five years.

The prior examination resulted in no recommendations. The current examination resulted in no recommendations, no adjustments to surplus and no reclassifications.

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

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

## IX. 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>
Gene Renard	Insurance Financial Examiner

Respectfully submitted,

Raymond Kangogo  
Examiner-in-Charge