Report

of the

Examination of

Medina Mutual Insurance Company

Marshall, Wisconsin

As of December 31, 2011

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State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

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April 25, 2012

Honorable Theodore K. Nickel
Commissioner of Insurance
State of Wisconsin
125 South Webster Street
Madison, Wisconsin 53703

Commissioner:

In accordance with your instructions, an examination has been performed as of December 31, 2010, of the affairs and financial condition of:

MEDINA MUTUAL INSURANCE COMPANY
Marshall, Wisconsin

and the following report thereon is respectfully submitted:

I. INTRODUCTION

The previous examination of Medina Mutual Insurance (the company) was made in 2009 as of December 31, 2008. This current examination was targeted at limited areas and covered the intervening time period ending December 31, 2010. The examination was initially conducted on May 1, 2011, with a follow-up examination in 2012. Due to the findings of the May 2011 examination, results were promptly communicated to the company's manager and board of directors so that they could take immediate action. The examination team then performed a follow up with the company on March 7, 2012. This report shows findings from both visits to the company.

The targeted examination reviewed concerns within the following areas:

Underwriting
Policies
Losses
Reinsurance

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 accounting for income taxes and compilation of the annual statement. On December 13, 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.

The company was organized as a town mutual insurance company on June 12, 1875, under the provisions of the then existing Wisconsin Statutes. The original name of the company was the Farmers' Mutual Protective Fire Insurance Company. Subsequent amendments to the company's articles and bylaws changed the company's name to that presently used.

During the period under examination, there was one amendment to the articles of incorporation and no amendments to the bylaws. The company amended Article V. to change the date of the annual meeting to the third Saturday in March of each year at 1:30 p.m.

The company is currently licensed to write property, including windstorm and hail, and nonproperty insurance. The company is currently licensed to write business in the following counties:

Columbia	Crawford
Dane	Dodge
Grant	Green
Iowa	Jefferson
Lafayette	Richland
Rock	Sauk
Walworth	

A review was made of the policy and application forms currently used by the company. The company issues approved policies with or without endorsements for the term of one year with premiums payable on the advance premium basis. The company also charges an installment fee of $10.00 per billing.

Business of the company is acquired through 65 agents, 2 of whom are directors of the company. Agents are presently compensated for their services as follows:

Type of Policy	Compensation
All lines of business	15%

Agents do not have authority to adjust losses. Losses are adjusted by the appointed adjusting committee. An outside adjuster is used when complex issues arise or if major storms occur that exceed the capabilities of the adjusting committee to investigate claims in a timely manner. Director-adjusters receive $40.00 for each loss adjusted plus $0.585 per mile for travel allowance. An additional $20.00 per hour is paid to director-adjusters for claims that take longer than two hours to adjust.

Policyholders may participate in the management and control of the company by attending and voting at all annual or special meetings of the members. No member may vote by proxy. The annual meeting of the company for the election of directors and special meetings of the company are held in accordance with its articles of incorporation.

Board of Directors

The board of directors consists of nine members divided into three classes. One class is elected at each annual meeting for a term of three years. Vacancies on the board may be filled by the directors for the interim to the next annual meeting when a director shall be chosen for the unexpired term.

The board of directors as of May 2011 consists of the following policyholders of the company:

Name	Principal Occupation	Residence	Expiry
Darrell Langer*	Part-time farmer and President and Manager of Medina Mutual Insurance Company	Marshall, Wisconsin	2012
Russell Haupt	Retired	Arlington, Wisconsin	2014
Wesley Dorshorst	Farmer and snow plow operator for the City of Sun Prairie	Deerfield, Wisconsin	2014
John Bornitzke*	Independent Agent	Marshall, Wisconsin	2013
Patrick Annen	Construction	Deerfield, Wisconsin	2014

Name	Principal Occupation	Residence	Expiry
Harland Walker	Farmer/Carpentry	Waterloo, Wisconsin	2013
Dwayne Schemecker	Farmer	Marshall, Wisconsin	2012
Douglas Lutz	Student Loan Lender	Marshall, Wisconsin	2012
Kevin Langer	Millwright	Columbus, Wisconsin	2013

Directors who are also agents are identified with an asterisk.

Members of the board currently receive $75.00 for each meeting attended and $0.585 per mile for travel expenses.

Section 612.13 (1m), Wis. Stat., requires:

(1) If a town mutual has fewer than nine directors, no more than one director may be an employee or representative of the town mutual; and

(2) Employees and representatives of a town mutual may not constitute a majority of its board.

The company is in compliance with these requirements.

Officers

Officers are elected by the board of directors from among its members and hold office for one year or until their successors are duly elected and qualified. Officers serving at the present time are as follows:

Name	Office	2010 Compensation
Darrell Langer	President	$27,000*
Russell Haupt	Vice President	0
Wesley Dorshorst	Secretary	2,500
John Bornitzke	Treasurer	5,000*

* The President and Treasurer also receive commissions as agents. For 2010 Mr. Langer received $63,738 in commissions and Mr. Bornitzke received $16,607 in commissions.

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:

Adjusting Committee	Inspection Committee	Investment Committee
Darrell Langer, Chair	Darrell Langer, Chair	Darrell Langer, Chair
John Bornitzke	John Bornitzke	John Bornitzke
Harland Walker	Harland Walker	Harland Walker

Growth of Company

The growth of the company for the previous seven years as compiled from its filed annual statements was as follows:

Year	Net Premiums Earned	Policies In Force	Net Income	Admitted Assets	Policyholders' Surplus
2011	$1,427,929	2,564	$ 30,422	$2,298,812	$ 647,585
2010	1,519,699	2,729	(312,649)	2,201,724	585,199
2009	1,546,880	2,733	52,784	2,539,890	875,982
2008	1,642,308	2,699	(356,612)	2,312,044	759,040
2007	1,681,645	2,730	(26,859)	3,007,056	1,321,156
2006	1,641,851	2,722	(177,081)	2,828,924	1,310,006
2005	1,482,284	2,684	59,994	2,837,817	1,420,636

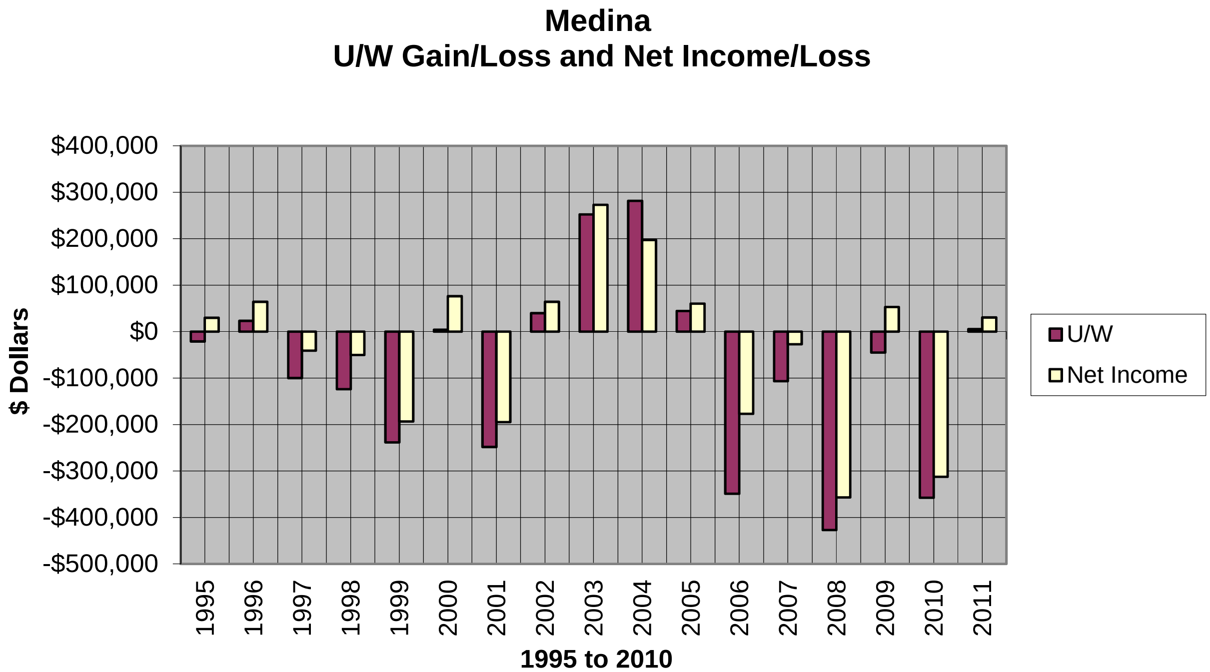
The ratios of gross and net premiums written to surplus as regards policyholders for the previous seven years were as follows:

Year	Gross (Direct) Premiums Written	Net Premiums Written	Policyholders' Surplus	Writings Net	Ratios Gross
2011	$2,290,194	$1,189,884	$ 647,585	184%	354%
2010	2,380,679	1,564,699	585,199	267	407
2009	2,272,807	1,572,775	875,982	180	259
2008	2,346,500	1,707,100	759,0470	225	309
2007	2,244,501	1,685,736	1,321,156	128	170
2006	2,249,318	1,679,594	1,310,006	128	172
2005	2,093,165	1,586,482	1,420,636	112	147

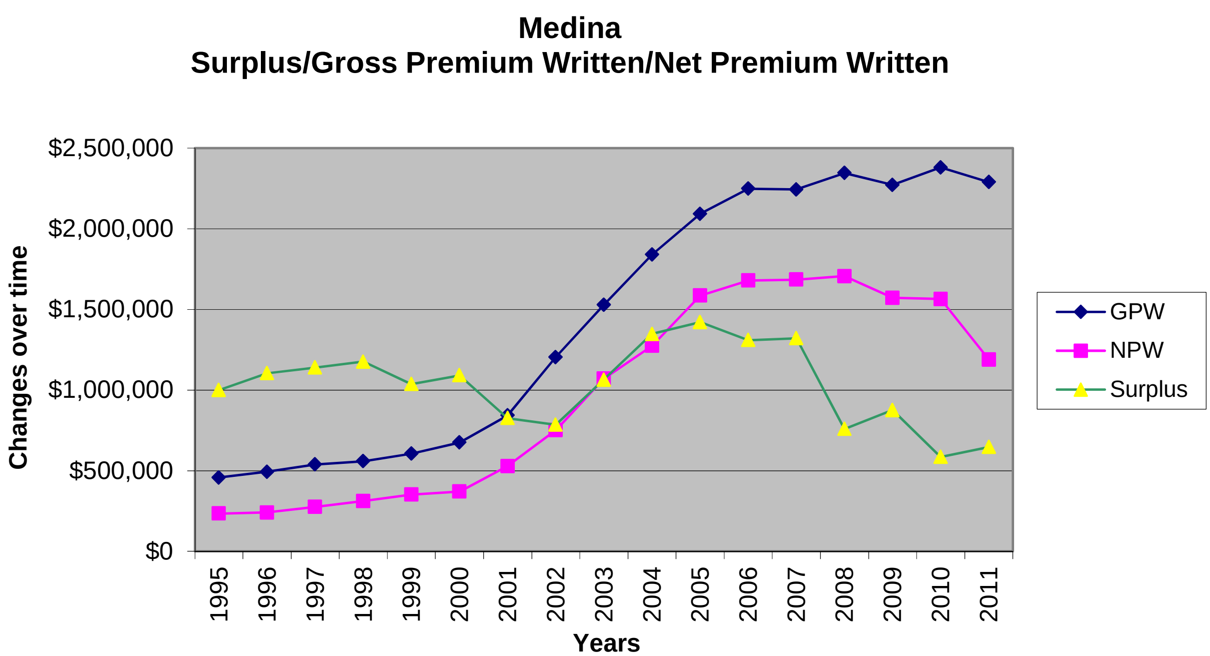
For the same period, the company's operating ratios were as follows:

Year	Net Losses and LAE Incurred	Other Underwriting Expenses Incurred	Net Premiums Earned	Loss Ratio	Expense Ratio	Com-posite Ratio
2011	$ 850,639	$571,812	$1,427,929	60%	48%	108%
2010	1,268,803	608,351	1,519,532	83	39	122
2009	1,020,674	571,259	1,546,880	66	36	180
2008	1,529,376	540,116	1,642,308	93	32	125
2007	1,274,445	513,716	1,681,645	76	30	106
2006	1,463,281	527,293	1,641,851	89	31	121
2005	929,773	507,961	1,482,284	63	32	95

A chart of the Underwriting Gain/Loss to Net Income/Loss for the period of 1983 to 2011 as follows:



A chart comparing Premiums to Surplus from 1995 to 2011 as follows:



Business written has increased significantly since 1995; this was partially attributable to rate increases and inflation in housing prices but mostly due to aggressive marketing through the increase in territory and in the agency force. The company's ratio of Gross Premiums Written to Surplus for 2010 was 4.07:1, and for 2011 was 3.53:1 (town mutual averages for those years were 0.52:1 and 0.55:1, respectively), meaning that Medina was almost 8 and 7 times as leveraged as the average town mutual by this measure, which means there is less surplus backing each dollar of premium to absorb unfavorable underwriting results. This is a significant increase from the 1995 Gross Premiums Written to Surplus which was 0.46:1.

Policies in force tripled from 900 policies in 1995 to over 2,700 in 2010, before a reduction to 2,564 in 2011. Surplus in 1995 was $1,000,388 compared to surplus in 2010 and 2011 which were $585,199 and $647,585, respectively, a 42% and 35% decrease in surplus. Surplus decreased 33% in 2010 from 2009 due to high losses paid of $1,611,145 and $1,135,690, respectively. In 2011 surplus increased 11% from 2010 due to an underwriting gain and investment income.

The decrease in Net Premiums Written in 2011 ($1,189,884 vs. $1,564,699 in 2010) is primarily due to the company complying with the terms of its Class B reinsurance contract, where the company cedes the portion of risk in excess of $1 million to its reinsurer. As noted later in the report, the company ceded nearly none of this risk in preceding years.

The company reported Net Underwriting Losses in 10 of the last 17 years (including 5 of the last 6) and Net Losses for 8 of the last 17 years (including 4 of the last 6). The significant Net Underwriting Losses and Net Losses over the last 6 years have contributed to the steady decline in Surplus.

II. REINSURANCE

The examiners' review of the company's reinsurance portfolio revealed there is currently one ceding treaty with seven coverage sections. The treaty contained a proper insolvency clause and complied with s. Ins 13.09 (3), Wis. Adm. Code, concerning maximum wind loss. Company retentions of risk complied with s. Ins 13.06, Wis. Adm. Code.

Reinsurer:	Wisconsin Reinsurance Corporation (WRC)
Effective date:	January 1, 2012
Termination provisions:	Either party may terminate on any January 1st by giving at least 90 days' written notice to the other party

The coverages provided under this treaty are summarized as follows:

1.	Type of contract:	Class A Casualty Excess of Loss
	Lines reinsured:	Casualty business
	Company's retention:	$10,000 in respect to each and every loss occurrence
	Coverage:	100% of each and every loss occurrence, including loss adjustment expense, in excess of the company's retention subject to the maximum policy limits of: a. $1,000,000 per occurrence, single limit or combined for bodily injury and property damage liability b. $1,000,000 split limits, in any combination of bodily injury and property damage liability c. $25,000 for medical payments, per person; $25,000 per accident
	Reinsurance premium:	40% of the net premium written
2.	Type of contract:	Class B First Surplus
	Lines reinsured:	All property business
	Company's retention:	If the risk is $500,000 or more, the company may cede on a pro rata basis, and the reinsurer is obligated to accept up to $2,000,000. If the risk is $500,000 or less on a risk, the company may cede on a pro rata basis, and the reinsurer is obligated to accept up to 50% of such risk.
	Coverage:	Pro rata share of each and every loss, including loss adjustment expense, corresponding to the amount of the risk ceded

	Reinsurance premium:	The pro rata portion of all premiums, fees and assessments charged by the company corresponding to the amount of each risk ceded
	Ceding commission:	Commission allowance: 15% of the premium paid Profit commission: 15% of the net profit
3.	Type of contract:	Class C-1 Excess of Loss First Layer
	Lines reinsured:	All property business
	Company's retention:	$55,000 per loss per occurrence
	Coverage:	$145,000 excess of retention including loss adjusting expenses
	Reinsurance premium:	The rate in effect shall be determined by taking the sum of the immediately preceding four years' losses incurred (paid plus outstanding) by the reinsurer divided by the total of the net premiums written for the same period, multiplied by the factor 100/80ths. Current rate is 20.00%. Minimum rate = 6.00% Maximum rate = 20.00% Annual deposit premium = $72,000
4.	Type of contract:	Class C-2 Second Excess of Loss Second Layer
	Lines reinsured:	All property business
	Company's retention:	$200,000 per loss per occurrence
	Coverage:	$300,000 excess of retention including loss adjustment expenses for each and every loss occurrence
	Reinsurance premium:	3.0% of net premiums written, subject to an annual deposit premium of $56,634
5.	Type of contract:	Class D/E-1 First Aggregate Excess of Loss Reinsurance
	Lines reinsured:	All business including nonproperty
	Company's retention:	47.5% of net premium written
	Coverage:	100% of the amount by which the aggregate of the company's losses, including loss adjustment expenses exceed the retention with a limit of 47.5% of NWP (losses from 52.5% to 100% of net written premium). Estimated attachment point is $862,729.
	Reinsurance premium:	Current rate = 11.40% Annual deposit premium = $49,590

6.	Type of contract:	Class D/E-2 Second Aggregate Excess of Loss Reinsurance
	Lines reinsured:	All business written by the company
	Company’s retention:	100% of net written premium
	Coverage:	100% of the amount by which the aggregate of the company’s losses, including loss adjustment expenses, exceed the retention
	Reinsurance premium:	Current rate = 3.00% Premium deposit = $13,050

III. 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. Adjustments made as a result of the examination are noted at the end of this section in the area captioned "Reconciliation of Policyholders' Surplus."

Medina Mutual Insurance Company
Statement of Assets and Liabilities
As of December 31, 2011

Assets	**Ledger**	**Nonledger**	**Not Admitted**	**Net Admitted**
Cash in checking	$ 116,696	$	$	$ 116,696
Cash deposited at interest	1,236,511			1,236,511
Stocks and mutual fund investments	566,806			566,806
Real estate	53,736			53,736
Premiums, agents' balances and installments:				
In course of collection	46,662			46,662
Deferred and not yet due	241,353			241,353
Investment income accrued		6,416		6,416
Reinsurance recoverable on paid losses and LAE	30,632			30,632
Electronic data processing equipment			9,640	
Other nonadmitted assets:				
Prepaid expenses			6,810	
Totals	$2,292,396	$6,416	$16,450	$2,298,812

Liabilities and Surplus

Net unpaid losses	$ 75,494
Unpaid loss adjustment expenses	0
Commissions payable	70,097
Fire department dues payable	4,253
Unearned premiums	918,534
Reinsurance payable	525,781
Amounts withheld for the account of others	8,168
Payroll taxes payable (employer's portion)	1,381
Other liabilities:	
Expense-related:	
Accounts payable	15,846
Nonexpense-related:	
Premiums received in advance	31,673
Total liabilities	1,651,227
Policyholders' surplus	647,585
Total Liabilities and Surplus	$2,298,812

Medina Mutual Insurance Company
Statement of Operations
For the Year 2010

Net premiums and assessments earned		$1,427,929
Deduct:		
Net losses incurred	$727,907	
Net loss adjustment expenses incurred	122,732	
Net other underwriting expenses incurred	571,812	
Total losses and expenses incurred		1,422,451
Net underwriting gain (loss)		5,478
Net investment income:		
Net investment income earned	1,650	
Total investment gain (loss)		18,290
Other income (expense):		
Miscellaneous income (expense)	23,294	
Total other income		23,294
Net Income (Loss)		$ 30,422

Medina Mutual Insurance Company
Reconciliation and Analysis of Surplus as Regards Policyholders
For the Five-Year Period Ending December 31, 2011

The following schedule is a reconciliation of surplus as regards policyholders for a period of five years as reported by the company in its filed annual statements:

	2011	2010	2009	2008	2007
Surplus, beginning of year	$585,199	$875,982	$759,047	$1,321,156	$1,310,006
Net income	30,422	(312,649)	52,784	(356,612)	(26,859)
Net unrealized capital gain or (loss)	22,678	14,221	32,472	(97,073)	36,928
Change in nonadmitted assets	9,286	7,645	31,679	(61,856)	1,081
Other gains and (losses) in surplus:					
Prior period adjustment				(46,568)	
Surplus, End of Year	$647,585	$585,199	$875,982	$ 759,047	$1,321,156

Reconciliation of Policyholders' Surplus

The examination resulted in no adjustments to policyholders' surplus. The amount reported by the company as of December 31, 2011, is accepted.

IV. SUMMARY OF EXAMINATION RESULTS

Compliance with Prior Examination Report Recommendations

Comments and recommendations contained in the last examination report and the action taken on them by the company are as follows:

1. Corporate Records—It is recommended that the company come into compliance with s. 612.13 (1m), Wis. Stat., by either increasing the board to the nine members it previously reported or have only one employee or representative on the board.

   Action—Compliance.

2. Corporate Records—It is recommended that the company revise their current agency agreements to state that the agent shall maintain a specified amount of errors and omissions insurance.

   Action—Compliance.

3. Corporate Records—It is recommended that the company establish a procedure that the company annually obtains proof that agencies have obtained the required amount of errors and omissions coverage.

   Action—Compliance.

4. Business Plan—It is recommended that the company and board should develop a plan for monitoring agent loss ratios and include these procedures in their business plan.

   Action—Noncompliance; see comments in the "Current Examination Results."

5. Underwriting—It is recommended that the company establish a formal inspection procedure for renewal business, including documentation of findings, and a procedure whereby a sampling of new applications and renewal business is inspected by the board of directors. The formal inspection procedure is to be submitted to this office for review.

   Action—Noncompliance; see comments in the "Current Examination Results."

6. Underwriting—It is recommended that the company comply with s. Ins 6.72 (1), Wis. Adm. Code, regarding maximum risk retention.

   Action—Compliance.

7. Underwriting—It is recommended that the board annually review the reinsurance program (including the Class B layer and the reinsurer's facultative program), establish a written policy on ceding large risks, and establish a procedure to ensure that large property risks are ceded appropriately.

   Action—Noncompliance; see comments in the "Current Examination Results."

8. Accounts and Records—It is recommended that the company write and renew only policies that are in compliance with s. 612.32 (1), Wis. Stat.

   Action—Compliance.

9. Business Continuity Plan—It is recommended that the company test and update the business continuity plan annually.

   Action—Noncompliance; see comments in the “Current Examination Results.”

10. Net Unpaid Losses—It is recommended that the company establish proper reserves and record those estimates in the loss register in a timely manner.

    Action—Compliance.

11. Net Unpaid Losses—It is recommended that the company establish procedures to indicate the date the claim was settled, the amount of loss payments, and claims closed without payment should be so noted in accordance with s. Ins 13.05 (3) (f), Wis. Adm. Code.

    Action—Compliance.

12. Net Unpaid Losses—It is recommended that the claim file shall contain the reason for denial and a copy of the denial letter in accordance with s. Ins 13.06 (4) (f), Wis. Adm. Code.

    Action—Noncompliance; see comments in the “Current Examination Results.”

Current Examination Results

Corporate Records

The minutes of the annual meetings of policyholders and meetings of the board of directors and committees thereof were reviewed for the period under examination and also for the subsequent period.

Biographical data relating to company officers and directors have been reported in accordance with the provisions of s. Ins 6.52, Wis. Adm. Code.

The company has executed formal written agreements with its agents. The contracts include language indicating the agent will represent the company's interests "in good faith."

Business Plan

The company provided their current business plan as of May 2011. The examination noted that the company's business plan stated future goals for surplus growth:

- Review rates
- Raise deductibles
- Evaluate insured's claims history by frequency and severity
- All new and renewal policies will be inspected.

It was noted during the May 2011 examination that the company did not have a report showing agent loss ratios. The company could not provide the calculation of loss ratios by agent, and the manager believed some historical data in the computer was incorrect. The company had not developed a plan to monitor agent loss ratios and take action regarding agents with poor results up to and including termination of the agent nor had the board of directors made this part of the business plan of the company. It is again recommended that the company and board should develop a plan for monitoring agent loss ratios, taking appropriate action regarding agents with poor results, and include these procedures in their business plan.

During the examination in March 2012, it was noted that the company had included monitoring of agent loss ratios by agent as part of their revised business plan. The company provided a report of the three-year loss ratio by agents with noted action plans for troubled agents. The ongoing monitoring of the business plan results including agent loss ratios is part of the fiduciary responsibility of the board of directors.

As discussed earlier in this report, the company's ratio of premiums to surplus has been seven to eight times the ratio of the average town mutual insurer. The company has written 2,500–2,700 policies, with direct premiums in the $2.2–2.3 million range for the past seven years; however, surplus has fallen by over 50%, from $1.4 million at year-end 2005 to $0.5 to 0.6 million at year-end 2010 and 2011. The company must evaluate agent performance and inspection reports and take actions to achieve a significant reduction in its policy count and direct premiums, consistent with its decline in surplus. It is recommended that the board of directors establish a goal of not writing more than $2 of direct premiums for each dollar of surplus.

Underwriting

The company has a written underwriting guide. The guide covers all the lines of business that the company is presently writing. In May of 2011 the company stated that it has an inspection procedure for all new business and that it has been inspecting new properties; however, these inspections were not in the policy file and there was no indication that the results of these inspections were applied to the policy approval or pricing. It is recommended that the company review each new policy inspection and apply the company's underwriting guidelines to the policy in a timely manner to allow the company to cancel a new policy (if necessary) within the time limits provided in s. 631.36 (2) (c), Wis. Stat.

In May 2011 the examiners reviewed a sample of renewed policies to determine that the company was in compliance with the prior examination recommendation regarding a formal inspection procedure for renewal business. The examiner reviewed a policy file sample for renewals as of year-end 2010. The policy testing noted that there were only two current inspections performed in 2010. The company should have had a formal inspection program for renewal business as indicated by the 2008 prior examination recommendation. The record of inspections should be provided to the board of directors at each meeting, and the results should help prioritize future inspections. The examiners did not note any discussion of renewal inspections in the board minutes as evidence of compliance. The board of directors should review a sample of inspection reports for compliance with the company's underwriting and inspection procedures to ensure that the company is accepting risks according to its underwriting goals. It is again recommended that the company establish a formal inspection procedure for renewal business, maintain detailed records of inspection reports including underwriting actions taken, and establish a procedure whereby a sampling of new applications and renewal business is inspected by the board of directors. The formal inspection procedure is to be submitted to this office for review.

In March 2012, the examiners returned to again review compliance with the recommendation relating to renewal inspection process. As the company had not created a formal inspection as directed by this office, the examination team randomly selected a sample of policies from the year-end 2011 in-force register to determine:

- There was sufficient evidence that inspections had been performed;
- Timely receipt of inspections documentation; and
- Evidence of actions taken

The result of this test was that 27% of the policies had evidence that inspections had been performed. However, it was discovered that inspections were performed when directed by the company which had no relationship to the renewal date of the policies inspected. In addition there was no evidence of actions taken by the company based on the results of the inspection. It was also noted that inspections were not performed and/or acted on before the 60-day period required under s. 631.36 (2) (c), Wis. Stat. Therefore, the company would be unable to nonrenew a bad risk in compliance with this statute.

After the March 2012 exam visit, the company provided an inspection report of the renewal policies for the examiners' review, it was noted 400 inspections were performed in 2011; however, there was no significant changes to the policies after they had been inspected and renewed. There was also no evidence of nonrenewal based on the inspection report.

Review of the in-force register in May 2011 found that the company had 82 policies in excess of $1 million. Examiners reviewed 60 of the largest risks and found that only 1 of the 60 was ceded to the reinsurer under the Class B First Surplus agreement. The company acknowledged that it did not consistently cede large risks. The premium for the Class B coverage is pro rata, with no retrospective rating based on loss history; however, the Class C-1 and D/E coverages include retrospective rating so future rates would increase based on losses ceded under them. Also, the reinsurer has a facultative excess of loss program for risks exceeding the dollar limits of the reinsurance contract. By not ceding large policies to the reinsurer under Class B or the facultative program, the company is taking the risk that a large claim could adversely affect its future reinsurance rates. It is again recommended that the board annually review the reinsurance program (including the Class B layer and the reinsurer's facultative program) and establish a procedure to ensure that large property risks are ceded consistent with the terms of the company's reinsurance agreements.

In March 2012, examiners again reviewed the in-force register to determine compliance with a previous examination recommendation concerning ceding large risks based on the company's current reinsurance program. The company's reinsurance contract was rewritten during 2011; the revised contract lowered the company's risk retention. The examiners sampled all polices over the retention level. It appears that the company is properly ceding large risks in compliance with their agreed retention levels.

Business Continuity Plan

A business continuity plan identifies steps to be performed by a company in the event of business interruptions including, but not limited to, the inability to access its computer, the loss of information on its computer, the loss of a key employee, or the destruction of its office building. The company had developed a business continuity plan; however, the company's business continuity plan does not appear to test and update the business continuity plan annually. Review of the plan noted that the company had not tested or updated the plan regularly to ensure that the plan remain current. It is again recommended that the company test and update the business continuity plan annually.

Net Unpaid Losses

This liability represents losses incurred on or prior to December 31, 2010, that remained unpaid as of that date. The examiners reviewed the reasonableness of this liability by totaling actual loss payments made subsequent to December 31, 2010, with incurred dates in 2010 and prior years. The examiners' development of unpaid losses is compared with the amount estimated by the company in the following schedule.

	Company Estimate	Examiners' Development	Difference
Incurred but unpaid losses	$985,585	$431,339	$554,262
Less: Reinsurance recoverable on unpaid losses	666,103	118,603	547,500
Net Unpaid Losses	$319,482	$312,736	$ 6,746

The above difference of $6,746 was not considered material for purposes of this examination. The examination noted that the company's year-end open claim register contained reserve estimates for each claim and that all of the open claims were properly included in the balance for this liability. The examiners determined that it would not be necessary to further review the unpaid losses during the examination in March of 2012.

The examiners' review of claim files included open claims, paid claims, claims closed without payment, and claims that were denied during the examination period. The review indicated that claims are investigated and evaluated properly and that payments are made promptly and in accordance with policy provisions upon the submission of a proper proof of loss. In addition, the review of claims handling procedures and files revealed the following:

1. A proper loss register is maintained.
2. Claim files did contain sufficient investigatory data and documentation to verify settlement payments.
3. Proofs of loss were properly signed.

The examination noted the company reported on the loss register or in the claim file the date the claim was closed, the amount of loss payments, and if the claim had been closed without payment.

Additionally the examination noted that both the company and independent adjusters generally document claims properly. However, there were claim files in which there was no clear evidence that the policyholder was sent a letter when a claim is closed without payment. It is again recommended that the claim file shall contain the reason for denial and a copy of the denial letter in accordance with s. Ins 13.06 (4) (f), Wis. Adm. Code.

V. CONCLUSION

The company's financial position continues to deteriorate since the last examination in 2009 as of December 31, 2008. Gross premium written and policies in force increased through 2010, with a small reduction in 2011. The company's ratio of Direct Premiums Written to Surplus as of year-end 2010 was 4.06:1 and as of December 31, 2011, was 3.53:1. The average ratio for all town mutual insurers was 0.57:1, meaning that Medina is over seven times as leveraged as the average town mutual.

During the March 2012 review it was noted that the company reported a slight improvement in surplus to $647,585, a 10% increase which was due to reduced retention of risk. The company's reinsurance contracts were rewritten during 2011 allowing for the company's lowered risk retention. The company increased ceding of 1st Surplus premiums to their reinsurer. This put the company in a slightly better financial position in spite of the $1.7 million of incurred losses in 2011.

The company must consistently inspect renewed policies, which includes following the inspection procedures established for renewal business, and ensure that the underwriting procedures are adhered to by agents and by management. The company also must continually review loss ratios by agency and line of business and ensure that the agents are following company standards.

Medina will have many challenges to return to a financially strong company. The board of directors and management will need to work together to make sure business is properly inspected and is profitable and that agents comply with underwriting rules or are terminated. The board of directors needs to carry out their fiduciary responsibility by providing proper oversight of management.

VI. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 17 - Business Plan—It is again recommended that the company and board should develop a plan for monitoring agent loss ratios, taking appropriate action regarding agents with poor results, and include these procedures in their business plan.

2. Page 18 - Business Plan—It is recommended that the board of directors establish a goal of not writing more than $2 of direct premiums for each dollar of surplus.

3. Page 18 - Underwriting—It is recommended that the company review each new policy inspection and apply the company's underwriting guidelines to the policy in a timely manner to allow the company to cancel a new policy (if necessary) within the time limits provided in s. 631.36 (2) (c), Wis. Stat.

4. Page 19 - Underwriting—It is again recommended that the company establish a formal inspection procedure for renewal business, maintain detailed records of inspection reports including underwriting actions taken, and establish a procedure whereby a sampling of new applications and renewal business is inspected by the board of directors. The formal inspection procedure is to be submitted to this office for review.

5. Page 20 - Underwriting—It is again recommended that the board annually review the reinsurance program (including the Class B layer and the reinsurer's facultative program) and establish a procedure to ensure that large property risks are ceded consistent with the terms of the company's reinsurance agreements.

6. Page 20 - Business Continuity Plan—It is again recommended that the company test and update the business continuity plan annually.

7. Page 21 - Net Unpaid Losses—It is again recommended that the claim file shall contain the reason for denial and a copy of the denial letter in accordance with s. Ins 13.06 (4) (f), Wis. Adm. Code.

VII. ACKNOWLEDGMENT

The courteous cooperation extended to the examiners by the company's personnel is hereby acknowledged.

In addition to the undersigned, David Jensen of the Office of the Commissioner of Insurance, State of Wisconsin, participated in the examination.

Respectfully submitted,

Judith Michael
Examiner-in-Charge