

Report
of the
Examination of
Mutual of Wausau Insurance Corporation
Wausau, Wisconsin
As of December 31, 2014

TABLE OF CONTENTS

	Page
I. INTRODUCTION.....	1
II. HISTORY AND PLAN OF OPERATION	3
III. MANAGEMENT AND CONTROL	5
IV. REINSURANCE	7
V. FINANCIAL DATA	11
VI. SUMMARY OF EXAMINATION RESULTS	19
VII. CONCLUSION.....	23
VIII. SUMMARY OF COMMENTS AND RECOMMENDATIONS.....	25
IX. ACKNOWLEDGMENT	26



State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

Scott Walker, Governor
Theodore K. Nickel, Commissioner

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January 22, 2016

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Honorable Theodore K. Nickel
Commissioner of Insurance
State of Wisconsin
125 South Webster Street
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Commissioner:

In accordance with your instructions, a compliance examination has been made of the affairs and financial condition of:

MUTUAL OF WAUSAU INSURANCE CORPORATION
Wausau, Wisconsin

and this report is respectfully submitted.

I. INTRODUCTION

The previous examination of Mutual of Wausau Insurance Corporation (the company) was conducted in 2010 as of December 31, 2009. The current examination covered the intervening period ending December 31, 2014, and included a review of such 2015 transactions as deemed necessary to complete the examination.

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

All accounts and activities of the company were considered in accordance with the risk-focused examination process. This may include assessing significant estimates made by management and evaluating management's compliance with statutory accounting principles,

annual statement instructions, and Wisconsin laws and regulations. The examination does not attest to the fair presentation of the financial statements included herein. If during the course of the examination an adjustment is identified, the impact of such adjustment will be documented separately at the end of the "Financial Data" section in the area captioned "Reconciliation of Surplus per Examination."

Emphasis was placed on 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.

II. HISTORY AND PLAN OF OPERATION

The company was originally organized as a town mutual insurance company on January 1, 1998, with the consolidation of two town mutuals: Wausau Mutual Insurance Company, organized in 1875, and Stettin Mutual Insurance Company, organized in 1876 under provisions of the then existing Wisconsin Statutes. The company assumed the name Wausau Stettin Mutual Insurance Company. Effective January 1, 2011, the company converted from a town mutual insurance company to a non-assessable mutual insurance company under ch. 611, Wis. Stat., and changed its name to that presently used. On October 1, 2011, Manitowoc Mutual Insurance Company was merged into Mutual of Wausau Insurance Company, with the company being the surviving entity. The company entered into an affiliation agreement with another domestic mutual insurer, Homestead Mutual Insurance Company (Homestead), which was effective January 1, 2015. While the two companies remain as separate entities, Mutual of Wausau Insurance Corporation maintains effective control of Homestead Mutual Insurance Company by virtue of appointing a majority of the directors on the Homestead Mutual Insurance Company board (five of nine). The agreement includes a Management Agreement under which the company will provide certain services and advice to Homestead, such as information technology services, investment advice, human resources, etc., as well as a Reinsurance Pooling Agreement that will pool the companies' premiums and claims experience to permit the more efficient use of capital and greater efficiencies in contracting for third-party reinsurance. Operating results through September 30, 2015, have been favorable for the company, showing no adverse impact as a result of the affiliation agreement.

The company is primarily a personal lines writer, with the highest volume lines of business being homeowner's multi-peril and farmowners multi-peril, with 53% and 34% of total direct premiums written, respectively. The company utilizes a network of approximately 75 independent agents to market and acquire business. The company is licensed to write business in all counties of the state of Wisconsin, and is not licensed in any other state. The company is subject to a Stipulation and Order dated March 3, 2011, stating that the company shall: 1) maintain a minimum permanent surplus of \$2 million; 2) limit its territory to the state of

Wisconsin; 3) assure that aggregate losses resulting from the umbrella excess liability program do not exceed \$25,000 in a calendar year; 4) maintain compulsory surplus in an amount equal to 20% of net premiums written for all annual statement lines of business during the preceding 12-month period; and 5) submit all changes to its reinsurance program 30 days prior to the effective date of the changes, which are subject to disapproval by the Commissioner.

The following table is a summary of the net insurance premiums written by the company in 2014. 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	\$ 453,185	\$	\$ 92,360	\$ 360,825
Allied lines	679,396		138,470	540,926
Farmowners multiple peril	3,985,774		812,330	3,173,444
Homeowner's multiple peril	6,175,926		1,258,705	4,917,221
Commercial multiple peril	329,762		67,210	262,552
Other liability – occurrence	<u>45,520</u>	<u>—</u>	<u>45,065</u>	<u>455</u>
Total All Lines	<u>\$11,669,563</u>	<u>\$</u>	<u>\$2,414,140</u>	<u>\$9,255,423</u>

III. MANAGEMENT AND CONTROL

Board of Directors

The board of directors consists of nine members divided into three classes. One class of directors is elected annually to serve a three-year term. Officers are elected at the board's annual meeting. The board members currently receive compensation of \$275 for each board meeting, \$425 for the Annual Meeting, varying amounts for attendance at other related meetings or events, and mileage reimbursement of \$0.55/mile for serving on the board.

Currently the board of directors consists of the following persons:

Name and Residence	Principal Occupation	Term Expires
Mark Ellenbecker Athens, WI	Carpenter	2016
Robert Geiger Wausau, WI	Retired/Financial Executive	2018
Fritz Hilfiker Merrill, WI	Small Business Owner	2017
Charles Lang Edgar, WI	Farmer	2018
Jon Petroskey Antigo, WI	Fire Chief	2016
William Rauen Hamburg, WI	Retired/Farmer	2016
Judith Smith Antigo, WI	Real Estate	2017
Faye Zernicke Wausau, WI	Program Technician	2018
Raynard Zunker Wausau, WI	Farmer	2017

Officers of the Company

The officers serving during 2014 are as follows:

Name	Office	2014 Compensation
Mark Splinter	President/Chief Executive Officer	\$232,463
DuWayne Zamzow *	Chairman	12,020
Raynard Zunker	Secretary/Treasurer	13,294

* Mr. Zamzow retired from the board in March 2015; he was replaced as a director by Robert Geiger. Mark Ellenbecker was selected to succeed Mr. Zamzow as Chairman.

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

Mark Ellenbecker – Chair
Charles Lang
Raynard Zunker

Compensation Committee

Mark Ellenbecker – Chair
Charles Lang
Judith Smith
Raynard Zunker

Investment Committee

Mark Ellenbecker – Chair
Robert Geiger
Charles Lang
Raynard Zunker

Nominating Committee

Raynard Zunker – Chair
Fritz Hilfiker
Judith Smith

Governance Committee

Mark Ellenbecker – Chair
Charles Lang
Jon Petroskey
Raynard Zunker
Mark Splinter (President/CEO) – non-voting

Audit Committee

Membership is full board

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.

Reinsurance Pooling Agreement

Pursuant to the affiliation agreement between the company and Homestead Mutual Insurance Company, the parties entered into a reinsurance pooling agreement effective January 1, 2015. The company will administer the agreement and perform all services necessary or desirable in connection with the agreement.

The pooling agreement states that the parties agree to pool all premiums written on in-force policies existing on and after January 1, 2015, and to allocate to each party its proportional share of the pooled underwriting results in accordance with a provisional participation percentage. This provisional participation rate is the percentage of the total written premiums that each company has in force as of the beginning of business on January 1st of each year, as compared to the combined total written premiums that the two companies have in force as of the beginning of business on that date. A final adjustment of the pool participation for each year shall be calculated based on the relative percentage of each company's in-force written premium as compared to the combined total written premiums in force as of the end of business on December 31st of that year.

Ceding Contract

Reinsurer:	Wisconsin Reinsurance Corporation (WRC)
Effective date:	January 1, 2015
Termination provisions:	Either party may terminate the contract as of any subsequent January 1 by giving the other party at least 90 days' advance notice in writing

The coverages provided under this treaty are summarized as follows:

1. Type: Casualty Excess of Loss
- Scope: All business written, plus assumed by the company under the pooling agreement, classified as casualty or liability
- Retention: \$50,000 in respect to each and every loss occurrence

Coverage:	100% of each and every loss, including loss adjustment expense, in excess of the retention, subject to the maximum policy limits of \$1,000,000 per occurrence; \$1,000,000 split limits; \$25,000 for medical payments per person, \$25,000 for medical payments, per accident for personal lines
Premium:	35% of the company's subject net premium; annual deposit premium of \$759,500
Ceding commission:	None
2. Type:	Combination Umbrella Quota Share & Excess of Loss
Scope:	All business written, plus assumed by the company under the pooling agreement, classified as umbrella liability Part 1 - Quota share of first \$1,000,000 limit of liability
Coverage:	99.0% of each loss occurrence, including loss adjustment expense, on the business covered by this Part, subject to a maximum limit of liability of \$990,000 on each loss occurrence
Premium:	99% of the company's subject net premium; annual deposit premium of \$49,500
Ceding commission:	27.50%
	Part 2 - 100% of \$1,000,000 in excess of \$1,000,000 each loss occurrence
Retention:	\$1,000,000
Coverage:	100% of each and every loss, including loss adjustment expense, in excess of a net retention of \$1,000,000, subject to the reinsurers limit of liability of 100% of \$1,000,000 of each loss occurrence
Premium:	99% of the company's subject net premium
Additional exclusions:	In addition to the exclusions listed in the contract of reinsurance, this coverage specifically excludes: 1) asbestos- related work of any type, 2) public or livery conveyance risks, and 3) risks involving prearranged organized racing, demolition or stunting activities
3. Type:	First Surplus Reinsurance
Scope:	All business written, plus assumed by the company under the pooling agreement, classified as property
Retention:	\$1,000,000
Coverage:	Reinsurer shall accept up to \$2,000,000 of pro rata reinsurance coverage on risks that exceed the retention; additionally, any single location which is in excess of \$2,500,000 of property

coverage, or otherwise beyond the terms, conditions and limitations of this contract, may be submitted to the reinsurer for special acceptance; the reinsurer reserves the right to accept or reject each such risk submitted

- Premium: Pro rata portion of all premiums, fees, and assessments charged by the company, corresponding to the amount of each risk ceded; annual deposit premium of \$428,438
- Ceding commission: 25% direct commission and 15% commission on profit
4. Type: First Per Risk Excess of Loss Reinsurance
- Scope: All business written, plus assumed by the company under the pooling agreement, classified as property
- Retention: \$85,000
- Coverage: \$130,000 with respect to each and every risk resulting from one loss occurrence, not to exceed one location
- Premium: 6% of the subject net premium, with an annual deposit premium of \$736,294
- Ceding commission: None
5. Type: Second Per Risk Excess of Loss Reinsurance
- Scope: All business written, plus assumed by the company under the pooling agreement, classified as property
- Retention: \$215,000
- Coverage: \$285,000 with respect to each and every risk resulting from one loss occurrence, not to exceed one location
- Premium: 2.5% of the subject net premium, with an annual deposit premium of \$306,789
- Ceding commission: None
6. Type: Third Per Risk Excess of Loss Reinsurance
- Scope: All business written, plus assumed by the company under the reinsurance pooling agreement, classified as property
- Retention: \$500,000
- Coverage: \$500,000 with respect to each and every risk resulting from one loss occurrence, not to exceed one location
- Premium: 1.0% of the subject net premium, with an annual deposit premium of \$122,716
- Ceding commission: None

7. Type: First Catastrophe Excess of Loss Reinsurance
- Scope: All business written, plus assumed by the company under the pooling agreement
- Retention: \$650,000
- Coverage: \$1,350,000 with respect to each loss occurrence, with a maximum limit of liability for all loss occurrences within any one annual period of \$2,700,000; losses resulting from any one loss occurrence shall not be subject to this coverage unless two or more policies insured by the company are involved in such loss occurrence
- Premium: 2.7% of the company's net premium, with an annual deposit premium of \$299,856
8. Type: First Aggregate Excess of Loss Reinsurance
- Scope: All business written, plus assumed by the company under the pooling agreement
- Retention: 63.00% of net premium written; estimated attachment point \$7,696,651
- Coverage: 100% of the amount by which the aggregate of the company's net losses, including loss adjustment expenses, occurring during an annual period exceed 63% of net written premium, with a limit of coverage equal to 40% of net written premium
- Premium: 3.0% of the company's net premium, with an annual deposit premium of \$366,507
- Ceding commission: None
9. Type: Second Aggregate Excess of Loss Reinsurance
- Scope: All business written, plus assumed by the company under the pooling agreement
- Retention: 103.00% of net premium written
- Coverage: 100% of the amount by which the aggregate of the company's net losses, including loss adjustment expenses, occurring during an annual period exceed 103% of net written premium
- Premium: 1.5% of the company's net premium, with an annual deposit premium of \$183,254
- Ceding commission: None

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, 2014, annual statement.

Adjustments made as a result of the examination are noted at the end of this section in the area captioned "Reconciliation of Surplus per Examination." Also included in this section are schedules that reflect the growth of the company, NAIC Insurance Regulatory Information System (IRIS) ratio results for the period under examination, and the compulsory and security surplus calculation.

Mutual of Wausau Insurance Corporation
Assets
As of December 31, 2014

	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	\$ 8,119,780	\$	\$ 8,119,780
Stocks:			
Preferred stocks	100,000		100,000
Common stocks	7,510,139		7,510,139
Real estate:			
Occupied by the company	1,995,138		1,995,138
Cash, cash equivalents, and short-term investments	1,017,274		1,017,274
Investment income due and accrued	87,014		87,014
Premiums and considerations:			
Uncollected premiums and agents' balances in course of collection	225,259,	1,081	224,178
Deferred premiums, agents' balances, and installments booked but deferred and not yet due	1,238,137		1,238,137
Reinsurance:			
Amounts recoverable from reinsurers	67,207		67,207
Current federal and foreign income tax recoverable and interest thereon	112,274		112,274
Net deferred tax asset	636,730	126,730	510,000
Electronic data processing equipment and software	59,620	44,690	14,930
Furniture and equipment, including health care delivery assets	21,485	21,485	0
Write-ins for other than invested assets:			
Automobile	16,050	16,050	0
Fire dues recoverable	3,266		3,266
Reinsurance commissions receivable	1,564		1,564
State income tax recoverable	<u>975</u>	<u> </u>	<u>975</u>
Total Assets	<u>\$21,211,912</u>	<u>\$210,036</u>	<u>\$21,001,876</u>

**Mutual of Wausau Insurance Corporation
Liabilities, Surplus, and Other Funds
As of December 31, 2014**

Losses		\$ 1,075,998
Loss adjustment expenses		55,000
Commissions payable, contingent commissions, and other similar charges		584,079
Other expenses (excluding taxes, licenses, and fees)		175,797
Taxes, licenses, and fees (excluding federal and foreign income taxes)		106
Unearned premiums		5,775,357
Advance premium		172,864
Ceded reinsurance premiums payable (net of ceding commissions)		942
Amounts withheld or retained by company for account of others		2,177
Write-ins for liabilities:		
Rent security deposits		<u>1,000</u>
Total liabilities		7,843,320
Unassigned funds (surplus)	<u>\$13,158,556</u>	
Surplus as regards policyholders		<u>13,158,556</u>
Total Liabilities and Surplus		<u>\$21,001,876</u>

**Mutual of Wausau Insurance Corporation
Summary of Operations
For the Year 2014**

Underwriting Income		
Premiums earned		\$9,193,446
Deductions:		
Losses incurred	\$4,363,671	
Loss adjustment expenses incurred	884,188	
Other underwriting expenses incurred	<u>3,905,814</u>	
Total underwriting deductions		<u>9,153,673</u>
Net underwriting gain (loss)		39,773
Investment Income		
Net investment income earned	161,645	
Net realized capital gains (losses)	<u>542,771</u>	
Net investment gain (loss)		704,416
Other Income		
Finance and service charges not included in premiums	52,368	
Write-ins for miscellaneous income:		
Miscellaneous	<u>1,494</u>	
Total other income		<u>53,862</u>
Net income (loss) after dividends to policyholders but before federal and foreign income taxes		798,051
Federal and foreign income taxes incurred		<u>90,500</u>
Net Income		<u>\$ 707,551</u>

Mutual of Wausau Insurance Corporation
Cash Flow
For the Year 2014

Premiums collected net of reinsurance		\$9,027,443
Net investment income		353,808
Miscellaneous income		<u>53,862</u>
Total		9,435,113
Benefit- and loss-related payments	\$ 5,331,959	
Commissions, expenses paid, and aggregate write-ins for deductions	3,920,138	
Federal and foreign income taxes paid (recovered)	<u>(123,113)</u>	
Total deductions		<u>9,128,984</u>
Net cash from operations		306,129
Proceeds from investments sold, matured, or repaid:		
Bonds	\$ 2,162,814	
Stocks	<u>11,341,845</u>	
Total investment proceeds		13,504,659
Cost of investments acquired (long-term only):		
Bonds	3,249,409	
Stocks	<u>10,615,450</u>	
Total investments acquired		<u>13,864,859</u>
Net cash from investments		(360,200)
Other cash provided (applied)	<u>(116,638)</u>	
Net cash from financing and miscellaneous sources		<u>(116,638)</u>
Reconciliation:		
Net change in cash, cash equivalents, and short-term investments		(170,709)
Cash, cash equivalents, and short-term investments:		
Beginning of year		<u>1,187,983</u>
End of Year		<u>\$1,017,274</u>

**Mutual of Wausau Insurance Corporation
Compulsory and Security Surplus Calculation
December 31, 2014**

Assets		\$21,001,876
Less security surplus of insurance subsidiaries		
Less liabilities		<u>7,843,320</u>
Adjusted surplus		13,158,556
Annual premium:		
Lines other than accident and health	\$9,255,423	
Factor	<u>20%</u>	
Compulsory surplus (subject to a minimum of \$2 million)		<u>\$ 2,000,000</u>
Compulsory Surplus Excess (or Deficit)		<u>\$11,158,556</u>
Adjusted surplus (from above)		\$13,158,556
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>\$10,358,556</u>

**Mutual of Wausau Insurance Corporation
Analysis of Surplus
For the Five-Year Period Ending December 31, 2014**

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

	2014	2013	2012	2011	2010
Surplus, beginning of year	\$12,662,241	\$12,580,662	\$11,682,004	\$13,227,974	\$12,920,495
Net income	707,551	(525,848)	499,377	(946,653)	(285,116)
Change in net unrealized capital gains/losses	(213,620)	316,129	(24,475)	(348,634)	538,714
Change in net deferred income tax	(203,346)	66,184	92,980	(214,791)	129,854
Change in nonadmitted assets	<u>205,730</u>	<u>225,114</u>	<u>330,776</u>	<u>(35,892)</u>	<u>(75,973)</u>
Surplus, End of Year	<u>\$13,158,556</u>	<u>\$12,662,241</u>	<u>\$12,580,662</u>	<u>\$11,682,004</u>	<u>\$13,227,974</u>

**Mutual of Wausau Insurance Corporation
Insurance Regulatory Information System
For the Two-Year Period Ending December 31, 2014**

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	2014	2013**
#1	Gross Premium to Surplus	89%	91%
#2	Net Premium to Surplus	70	69
#3	Change in Net Premiums Written	6	1
#4	Surplus Aid to Surplus	0	0
#5	Two-Year Overall Operating Ratio	102*	100*
#6	Investment Yield	0.9*	0.8*
#7	Gross Change in Surplus	4	1
#8	Change in Adjusted Surplus	4	1
#9	Liabilities to Liquid Assets	39	42
#10	Agents' Balances to Surplus	2	1
#11	One-Year Reserve Development to Surplus	-2	-2
#12	Two-Year Reserve Development to Surplus	-2	-2
#13	Estimated Current Reserve Deficiency to Surplus	-2	-4

** The company began to file the NAIC annual statement blank in 2011, when it converted to ch. 611 status. Certain NAIC IRIS ratios cannot be calculated until the third annual statement has been filed, so the IRIS data begins with the 2013 year.

Ratio No. 5 measures the company's profitability over the previous two-year period. The exceptional results in 2013 and 2014 are due to a significantly unprofitable year in 2013, which resulted from some unusually destructive storm events that year. The unprofitable 2013 year caused this ratio to be failed for both the 2012-13 calculation and the 2013-14 calculation.

Ratio No. 6 measures the company's investment yield. The exceptional results in 2013 and 2014 are due to low returns on the company's conservative investment portfolio; this is not uncommon given the low interest rate environment that has prevailed in recent years.

Growth of Mutual of Wausau Insurance Corporation (1)

Year	Admitted Assets	Liabilities	Surplus as Regards Policyholders	Net Income
2014	\$21,001,876	\$7,843,320	\$13,158,556	\$ 707,551
2013	21,037,026	8,374,785	12,662,241	(525,848)
2012	20,410,595	7,829,933	12,580,662	499,377
2011	19,126,986	7,444,982	11,682,004	(946,653)
2010	21,330,630	8,102,656	13,227,974	(285,116)
2009	14,462,814	4,460,523	10,002,291	846,707

Year	Gross Premium Written	Net Premium Written	Premium Earned	Loss and LAE Ratio	Expense Ratio	Combined Ratio
2014	\$11,669,563	\$9,255,423	\$9,193,446	57.1%	41.6%	98.7%
2013	11,577,080	8,763,345	8,662,365	64.1	46.9	111.0
2012	11,500,871	8,672,811	8,569,808	48.0	45.7	93.7
2011	11,475,083	7,754,646	8,043,576	76.0	48.0	124.0
2010	11,764,255	8,238,920	8,183,887	62.9	43.0	105.9
2009	6,566,439	5,009,803	4,987,143	40.0	41.0	81.0

(1) The data for 2010 and subsequent years reflect the 2011 merger with Manitowoc Mutual Insurance Company.

The company has experienced some volatility in its operating results over the examination period, with the years 2011 and 2013 being significantly unprofitable due to high storm losses. Additional factors having an adverse effect on the company's profitability include: 1) the 2011 merger with Manitowoc Mutual Insurance Company, which brought in some unprofitable business that required a multi-year process of re-underwriting subsequent to the merger, and 2) a higher than desirable expense ratio for the years 2013 and prior, which was due to costs incurred to implement technology upgrades, which were completed by year-end 2013. Without the impact of restatement to reflect the 2011 merger with Manitowoc Mutual Insurance Company, the company's results of operations for the year 2010 were a net underwriting gain of \$32,809 and net income of \$191,972.

Despite volatile operating results during the examination period, surplus as regards policyholders has increased by more than \$3 million, or 32%, during the examination period, with the Manitowoc Mutual Insurance Company merger contributing approximately \$1 million to surplus. With both the re-underwriting of unprofitable business obtained in the merger with Manitowoc Mutual Insurance Company and the completion of technology upgrades increasing the efficiency of operations, the company appears to have stabilized its underwriting results and returned to solidly profitable operations.

Reconciliation of Surplus per Examination

No adjustments were made to surplus as a result of this examination. The amount of surplus reported by the company as of December 31, 2014, is accepted.

VI. SUMMARY OF EXAMINATION RESULTS

Compliance with Prior Examination Report Recommendations

There were no comments and three specific recommendations in the previous examination report. Recommendations contained in the last examination report and actions taken by the company are as follows:

1. Furniture and Fixtures—It is recommended that the company report separate nonadmitted assets on their proper lines.

Action—Compliance

2. Net Unpaid Losses—It is recommended that the company develop controls that will allow it to assure that reinsured loss reserves and policy cessions are consistent with the same reports of the company's reinsurer.

Action—Compliance

3. Unpaid Loss Adjustment Expenses—It is recommended that the company do a basic cost study to determine a method of allocating costs among Loss Adjusting, Other Underwriting and Investing that reasonably reflects the costs that the company is incurring in each area, and develop estimates from that method to determine Unpaid LAE Reserves.

Action—Compliance

Summary of Current Examination Results

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

Audit Engagement

A review of the engagement letter submitted to the company by its independent certified public accounting firm in anticipation of the external audit as of December 31, 2014, found that the engagement letter included a clause that releases the CPA firm from responsibility for any misstatements in the company's financial statement that the CPA firm failed to detect due to misrepresentation made by the company's management. Chapter Ins 50.08 (1) (am), Wis. Adm. Code, provides that the Commissioner may rule that an accountant is not qualified to express an opinion on an audited financial statement if, among other things, the accountant has "either directly or indirectly entered into an agreement of indemnification with respect to the audit of the insurer." Chapter Ins 50.01 (4m), Wis. Adm. Code, defines indemnification as "an agreement of indemnity or a release from liability where the intent or effect is to shift or limit in any manner the potential liability of the person or firm for failure to adhere to applicable auditing or professional standards, whether or not resulting in part from knowing or other misrepresentations made by the insurer or its representatives." The clause included in the engagement letter creates a contractual disclaimer of liability with the intent to limit the liability of the CPA firm for failure to adhere to auditing standards. It is recommended that the company enter into future audit engagements with independent certified public accountants that are in compliance with all requirements under s. Ins 50.08 (1), Wis. Adm. Code.

The company represented to the examination team that the indemnification clause was removed from the engagement letter for the audit as of December 31, 2015.

Cash Receipts

It was noted during the review of cash handling processes that the company's internal controls related to cash handling transactions have not been established in accordance with best practices for premium and other payments received in physical cash. Best practices

include, but are not limited to, depositing cash received to a depository bank on a daily basis, segregation of duties and responsibilities, and proper authorization of transactions. Receipts and collection of cash are the most vulnerable transactions related to cash handling and instituting efficient and effective internal controls for cash handling procedures helps prevent misappropriation of cash assets. It is recommended that more effective internal control measures be designed and implemented for the handling of cash on hand.

Investment Limitations

A comparison of the company's investment portfolio to statutory investment limitations established in s. 620.23, Wis. Stat., found that the company has investments in foreign securities. Section Ins 6.20 (8) (k), Wis. Adm. Code, limits such investments to 2% of the insurer's assets. The excess over this limit can be invested under the "basket" clause permitted under s. 620.22 (9), Wis. Stat., which limits all other investments not specifically listed by other sections of s. 620.22, Wis. Stat., to 5% of the insurer's assets. As of December 31, 2014, the company exceeded the permissible amount of foreign investments by approximately \$451,000. According to s. 620.21, Wis. Stat., only assets that are invested in compliance with ch. 620, Wis. Stat., may be counted toward satisfaction of the compulsory surplus requirements or the security surplus standards. A review of the company's compulsory and security surplus calculation revealed that the company did not exclude the value of foreign investments that exceeded permissible amounts from the calculation. It is recommended that the company exclude the value of the assets that exceed the investment limitation prescribed by s. Ins 6.20 (8) (k), Wis. Adm. Code, and s. 620.22 (9), Wis. Stat., from the calculation of its compulsory and security surplus requirements in accordance with s. 620.21, Wis. Stat.

Unclaimed Property

Examination of the company's unclaimed property procedures revealed that the company does not report unclaimed property correctly on its financial statements. The liability for unclaimed property is included in "Other expenses" on page 3, line 5, of the annual statement. Per the 2014 NAIC Annual Statement Instructions – Property and Casualty, this liability should be reported as a write-in on page 3, line 25, of the annual statement. It is

recommended that the company report unclaimed property as a write-in on page 3, line 25, of the annual statement per the NAIC Annual Statement Instructions – Property and Casualty.

The examiners noted that the company has made appropriate filings to the state of Wisconsin regarding the actual amounts of unclaimed property.

VII. CONCLUSION

The company was originally organized as a town mutual insurer in 1998 with the consolidation of two town mutuals: Wausau Mutual Insurance Company and Stettin Mutual Insurance Company; the company assumed the name Wausau Stettin Mutual Insurance Company at that time. Then, effective in January 2011, the company converted from a town mutual insurance company to a non-assessable mutual insurance company and changed its name to that presently used. On October 1, 2011, Manitowoc Mutual Insurance Company was merged into Mutual of Wausau Insurance Corporation, with the company being the surviving entity.

Mutual of Wausau Insurance Corporation is primarily a personal lines writer, with the highest volume lines of business written being homeowner's multi-peril and farmowners multi-peril, with 53% and 34% of total direct premiums written, respectively. The company utilizes a network of approximately 75 independent agents to market and acquire business. The company is licensed to write business in all counties of the state of Wisconsin and is not licensed in any other state.

During the five-year examination period the company experienced uneven operating results, with the years 2011 and 2013 being significantly unprofitable. This unprofitability was driven by 3 key factors: 1) high storm losses in 2011 and 2013; 2) unprofitable business acquired in the merger with Manitowoc Mutual Insurance Company in 2011, which required an extensive re-underwriting process; and 3) an expense ratio that was elevated by the cost of technology upgrades implemented by the company through year-end 2013. By the final year of the examination period the company saw reductions in both the expense and loss ratios to levels that were more in line with historical results for the company; this led to the company recording the highest net income of the five-year exam period, \$707,551, for 2014.

The company entered into an affiliation agreement with another domestic mutual insurer, Homestead Mutual Insurance Company, that was effective January 1, 2015, but which received approval from OCI in 2014. While the two companies remain as separate entities, Mutual of Wausau Insurance Corporation maintains effective control of Homestead Mutual

Insurance Company by virtue of appointing a majority of the directors on the Homestead Mutual Insurance Company board (five of nine). The agreement includes a Management Agreement under which Mutual of Wausau Insurance Corporation will provide certain services and advice to Homestead Mutual Insurance Company, such as information technology services, investment advice, human resources, etc., as well as a Reinsurance Pooling Agreement that will pool the companies' premiums and claims experience to permit the more efficient use of capital and greater efficiencies in contracting for third-party reinsurance.

VIII. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 20 - Audit Engagement—It is recommended that the company enter into future audit engagements with independent certified public accountants that are in compliance with all requirements under s. Ins 50.08 (1), Wis. Adm. Code.
2. Page 21 - Cash Receipts—It is recommended that more effective internal control measures be designed and implemented for the handling of cash on hand.
3. Page 21 - Investment Limitations—It is recommended that the company exclude the value of the assets that exceed the investment limitation prescribed by s. Ins 6.20 (8) (k), Wis. Adm. Code, and s. 620.22 (9), Wis. Stat., from the calculation of its compulsory and security surplus requirements in accordance with s. 620.21, Wis. Stat.
4. Page 21 - Unclaimed Property—It is recommended that the company report unclaimed property as a write-in on page 3, line 25, of the annual statement per the NAIC Annual Statement Instructions – Property and Casualty.

IX. ACKNOWLEDGMENT

The courtesy and cooperation extended during the course of the examination by the officers and employees of the company is 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
Dana Tice	Insurance Financial Examiner
David Jensen	IT Specialist
Jerry DeArmond	Reserve Specialist

Respectfully submitted,

Robert McLaughlin
Examiner-in-Charge