Report

of the

Examination of

National Insurance Company of Wisconsin, Inc.

Brookfield, Wisconsin

As of December 31, 2013

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State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

Scott Walker, *Governor*
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April 13, 2015

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:

NATIONAL INSURANCE COMPANY OF WISCONSIN, INC.
Brookfield, Wisconsin

and this report is respectfully submitted.

I. INTRODUCTION

The previous examination of National Insurance Company of Wisconsin, Inc. (NICW or the company) was conducted in 2010 as of December 31, 2009. The current examination covered the intervening period ending December 31, 2013, and included a review of such 2014 transactions as deemed necessary to complete the examination.

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

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

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

Emphasis was placed on the audit of those areas of the company's operations accorded a high priority by the examiner-in-charge when planning the examination. Special attention was given to the action taken by the company to satisfy the recommendations and comments made in the previous examination report.

The company is annually audited by an independent public accounting firm as prescribed by s. Ins 50.05, Wis. Adm. Code. An integral part of this compliance examination was the review of the independent accountant's work papers. Based on the results of the review of these work papers, alternative or additional examination steps deemed necessary for the completion of this examination were performed. The examination work papers contain documentation with respect to the alternative or additional examination steps performed during the course of the examination.

II. HISTORY AND PLAN OF OPERATION

The company was originally organized in 1895 as a town mutual insurance company under the name Campbellsport Mutual Insurance Company. In 1976, the company became a domestic mutual insurance company and changed its name to Camco Insurance a Mutual Company. In 1980, the company converted to a stock insurance company and changed its name to Wisconsin Employers Indemnity Company. From 1980 to 1989, the company's ultimate parent was American Express Company. The company was sold as an inactive shell corporation to National Services, Inc. (NSI) in 1989. The principals of National Insurance Services of Wisconsin, Inc. (NIS) reactivated the company, adopted the current name of National Insurance Company of Wisconsin, Inc., and commenced business on February 9, 1989. (See the section of this report captioned "Affiliated Companies" for a list of the principals that own NICW, NIS and other affiliates.)

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

Wisconsin	$2,820,170	63.3%
Minnesota	768,482	17.2
Michigan	393,493	8.8
Indiana	238,578	5.4
North Dakota	142,900	3.2
Nebraska	70,712	1.6
Illinois	19,703	0.4
Montana	2,631	0.1
Total	$4,456,669	100.0%

The company is currently licensed in the following states:

Alabama	Kentucky	Nebraska
Colorado	Maryland	North Dakota
Delaware	Michigan	South Dakota
Georgia	Minnesota	Washington
Idaho	Mississippi	Wisconsin
Illinois	Missouri	Wyoming
Indiana	Montana	

NICW primarily writes group long-term disability insurance for school districts and municipalities. The company also writes a small volume of group short-term disability insurance and long-term care business. The company is not currently issuing new long-term care policies.

The following table is a summary of the net insurance premiums written by the company in 2013. The growth of the company is discussed in the "Financial Data" section of this report.

Line of Business	Direct Premium	Reinsurance Assumed	Reinsurance Ceded	Net Premium
Group accident and health	$4,123,700	$8,637,995	$1,911,604	$10,850,091
Other accident and health	332,969	0	316,321	16,648
Total All Lines	$4,456,669	$8,637,995	$2,227,925	$10,866,739

As noted in the schedule above, the company also assumes significant amounts of reinsurance written by other insurers. The company's reinsurance contracts are discussed in the section of this report titled "Reinsurance."

III. MANAGEMENT AND CONTROL

Board of Directors

The board of directors consists of nine members. All directors are elected annually to serve a one-year term. Officers are elected at the board's annual meeting. Members of the company's board of directors may also be members of other boards of directors in the holding company group. The board members currently receive $2,000 annual compensation for serving on the board.

Currently the board of directors consists of the following persons:

Name and Residence	Principal Occupation	Term Expires
Scott P. Briscoe Muskego, Wisconsin	Executive Vice President and Secretary of NICW Vice President, Secretary and Director of NIS	2015
Terry D. Briscoe Franklin, Wisconsin	Chairman and CEO of NICW Chairman of NIS	2015
Joseph M. DeRosa Hartland, Wisconsin	President of DeRosa Corporation (Restaurants)	2015
Henry J. Ehrsam Hartland, Wisconsin	Vice President of Sales/Marketing and Director of NIS	2015
Thomas D. Ehrsam Hartland, Wisconsin	Vice Chairman, COO of NICW COO and Director of NIS	2015
Frank J. Lauck, Jr. Brookfield, Wisconsin	Executive Vice President of NIS	2015
Stephanie G. Laudon Whitefish Bay, Wisconsin	Vice President and Director of NIS	2015
Bruce A. Miller Delafield, Wisconsin	President and Director of NICW President, CEO and Director of NIS	2015
David M. Norton Greendale, Wisconsin	Vice President and Treasurer of NICW Vice President, Treasurer, and Director of NIS	2015

Officers of the Company

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

Name	Office	2013* Compensation
Terry Briscoe	Chairman and Chief Executive Officer	$366,667
Thomas Ehrsam	Vice Chairman and Chief Operating Officer	183,333
Bruce Miller	President	24,640**
Scott Briscoe	Executive Vice President and Secretary	169,451
David Norton	Vice President and Treasurer	16,290**

* This is the portion of an officer's salary paid by NICW, excluding director's fee of $2,000.
** These officers received bonuses based on NICW's performance but do not draw a salary from NICW, rather their salaries are compensated by NIS.

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:

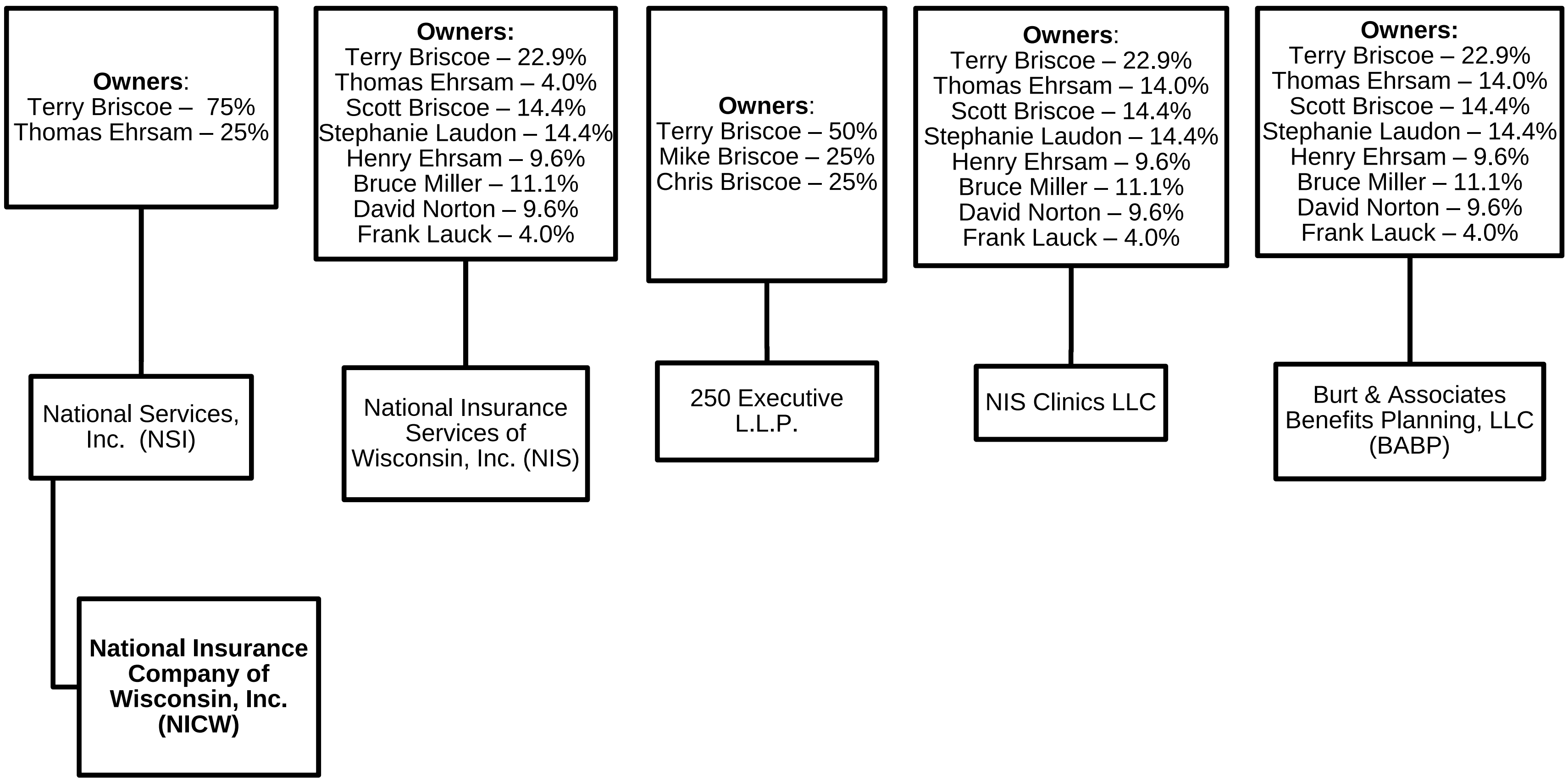
Investment Committee
Terry Briscoe, Chair
Michael Barsch
Scott Briscoe
Thomas Ehrsam
Frank Lauck
Bruce Miller
David Norton

Audit Committee
Scott Briscoe, Chair
Bruce Miller
David Norton

IV. AFFILIATED COMPANIES

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

Organizational Chart
As of December 31, 2013



National Services, Inc. (NSI)

National Services, Inc., is the parent of NICW. It was created for the sole purpose of holding ownership of NICW and conducts no other specific business. As of December 31, 2013, the audited financial statements of NSI reported assets of $19,673,412, liabilities of $84, and shareholders' equity of $19,673,328. Operations for 2013 produced net income of $1,728,513. All NSI's income is due to income produced by its one direct subsidiary, NICW.

National Insurance Services of Wisconsin, Inc. (NIS)

National Insurance Services of Wisconsin, Inc., is licensed as a third-party administrator in jurisdictions that require such licensure. NIS produces virtually all of the business written or assumed by NICW. NIS places approximately 3% to 4% of its business directly with NICW. As of December 31, 2013, the audited financial statements of NIS reported assets of $8,483,518, liabilities of $3,430,819, and stockholders' equity of $5,052,699. Operations for 2013 produced net income of $1,686,600.

250 Executive L.L.P.

250 Executive L.L.P. owns an office building leasing space to various companies including NICW and NIS. This is its only business. As of December 31, 2013, the unaudited financial statements of 250 Executive L.L.P. reported assets of $2,949,050, liabilities of $1,304,327, and a partners' equity of $1,644,723. Operations for 2013 produced net income of $340,195.

NIS Clinics LLC

NIS Clinics LLC is a provider of on-site medical clinics for the private and public sector. NIS Clinics LLC provides sales and marketing for CareATC, which provides worksite medical clinics for self-insured companies with 500 or more employees, with the goal of helping to reduce health care costs. While NICW does not have an exposure to NIS Clinics LLC, NIS has guaranteed the line of credit with a bank that makes up the majority of NIS Clinics LLC's liability. As of December 31, 2013, the unaudited financial statements of NIS Clinics LLC reported assets of $23,636, liabilities of $585,989, and a net worth of $(562,353). Operations for 2013 produced a net loss of $(187,123).

Burt & Associates Benefits Planning, LLC (BABP)

Burt & Associates Benefits Planning, LLC, was formed by the same owners of NIS in December 2011 to purchase the assets of a small insurance agency in the state of Indiana. BABP does not have any business transactions with NICW. It appears on Schedule Y because of the ownership affiliation with NIS. As of December 31, 2013, the unaudited financial statements of BABP reported assets of $1,359,976, liabilities of $1,373,051, and stockholders' equity of $(13,075). Operations for 2013 produced a net loss of $(78,996).

Agreements with Affiliates

NICW is a party to the following affiliated agreements:

Commission and Administrative Services Agreement

NICW has appointed NIS as administrator to perform various agency and administrative business services for its group policies under a commissions and administrative service agreement effective February 9, 1989. NIS is responsible for providing various policy services including enrollment solicitation, advertising support, delivery of coverage evidence, beneficiary processing and lapsed coverage notification. NIS is also responsible for various premium processing services including premium billing, collection and remittance reporting, in accordance with the agreement's Administrative Services Schedule. Under the agreement, the company pays a commission fee for insurance marketing services provided by NIS as well as an administration fee for NIS performance of various NICW operating services. The above fees are calculated as a percentage of premiums paid to the company in accordance with various amendments to the agreement's Commissions and Administration Fee Allowance Schedule. Commission fees are not to exceed 20%, with up to another 5% if NIS pays an outside agent 10% commission or more. The agreement may be terminated by either party with 60 days' advance written notice.

Profit-Sharing Agreement

A Profit-Sharing Agreement between NICW and NIS, effective February 9, 1989, and amended December 13, 2001, recognizes the influence that NIS has on the profitability of the business placed with NICW. Accordingly, NICW agrees to pay NIS a profit-sharing compensation in an amount equal to 10% of profits generated from long-term disability policies underwritten by NICW which are sold, issued and administered through NIS. The agreement may be terminated by NICW with 60 days' advance written notice.

ReliaStar Profit-Sharing Agreement

A Profit-Sharing Agreement between NICW and NIS, effective July 1, 1999, recognizes the influence that NIS has on the profitability of the business placed with NICW and reinsured 50% to ReliaStar Life Insurance Company. American United Life (AUL) was NICW's direct reinsurer prior to ReliaStar Life Insurance Company and had a profit-sharing arrangement with NIS. When ReliaStar Life Insurance Company took over as NICW's direct reinsurer in 1999, they requested that the agreement be with NICW rather than NIS. As part of the reinsurance agreement with ReliaStar Life Insurance Company and NICW, ReliaStar Life Insurance Company shares 50% of excess underwriting gain over 6% of premium with NICW. Any profit share NICW earns under this agreement is passed on to NIS as a contingent commission to keep NIS in the same financial position as they were when AUL was the reinsurer.

Marketing Services Agreement

NICW has appointed NIS as agent with respect to marketing long-term care insurance coverage under a marketing services agreement effective January 1, 2002. Under this agreement, NIS is responsible for performing enrollment solicitation, case material delivery, advertising and sales support, evidence of coverage delivery and marketing plan development. NICW pays NIS a commission of 14%. This agreement automatically renews annually. The agreement may be terminated by either party with 60 days' advance written notice. NICW is not currently issuing any new long-term care policies.

Tax Allocation Agreement

The company is a party to a Tax Allocation Agreement with its parent, National Services, Inc., effective June 29, 1999. NSI is responsible for the filing of a consolidated income tax return for its affiliated group. Each member of the affiliated group is responsible for the computation of its separate tax liability as if it had filed a separate tax return. The agreement applies to the tax year ending December 31, 1999, and all subsequent taxable periods unless the parent and subsidiary agree to terminate.

V. 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 Contracts

1.	Type:	Quota Share
	Reinsurer:	Reliance Standard Life Insurance Company
	Scope:	All long-term disability written by the company
	Retention:	50% of the company’s liability on a quota share basis, subject to a maximum of $15,000 gross monthly benefit
	Coverage:	50% of the company’s liability on a quota share basis, subject to a maximum of $15,000 gross monthly benefit
	Premium:	50% of the gross direct long-term disability premium earned
	Commissions:	10% expense allowance to the company
	Effective date:	January 1, 2013
	Termination:	Agreement shall be in continuous force and effect until terminated. Either party can terminate this agreement on any anniversary date by giving 180 days’ prior written notice.
2.	Type:	Quota Share
	Reinsurer:	Ability Insurance Company
	Scope:	Long-term care insurance policies written by the company through a third-party administrator, LifePlans Inc.
	Retention:	None
	Coverage:	100% of all direct long-term care business risk
	Premium:	100% of all direct long-term care premiums
	Commissions:	First Year—60% of gross premium written and 5% of paid claims Renewal Years—24% of gross premium written and 5% of paid claims
	Effective date:	February 1, 2011
	Termination:	Unlimited; either party may terminate at any time by giving 180 days’ written notice

Ceding Contracts in Run-Off

1.	Type:	Quota Share
	Reinsurer:	American United Life Insurance Company
	Scope:	Group long-term disability policies issued by the company up to July 1, 1999
	Retention:	75% of business issued between January 1, 1997, and December 31, 1997, and 50% of business issued between January 1, 1998, and June 30, 1999
	Coverage:	25% of business issued between January 1, 1997, and December 31, 1997, and 50% of business issued between January 1, 1998, and June 30, 1999
	Premium:	Gross earned premiums for group long-term disability policies written by the company up to July 1, 1999, in the same proportions of reinsurer coverage percentages
	Commissions:	10% expense allowance to the company
	Effective date:	January 1, 1997, to July 1, 1999 (risk was transferred to ReliaStar effective July 1, 1999)
	Termination:	Automatically renewed annually until cancelled at any time by mutual consent of both parties as of December 31 by giving 60 days' advance written notice.
2.	Type:	Quota Share
	Reinsurer:	ReliaStar Life Insurance Company (ReliaStar)
	Scope:	All long-term disability policies written by the company
	Retention:	50% of the company's liability on a quota share basis, subject to a maximum of $12,000 gross monthly benefit
	Coverage:	50% of the company's liability on a quota share basis, subject to a maximum of $12,000 gross monthly benefit
	Premium:	50% of the gross direct long-term disability premium earned
	Commissions:	10% expense allowance to the company 50% of net underwriting profits to the company
	Effective date:	July 1, 1999
	Termination:	Agreement shall be in continuous force and effect until terminated. Either party can terminate this agreement on any anniversary date by giving 90 days' prior written notice.

3.	Type:	Quota Share
	Reinsurer:	Munich American Reassurance Company
	Scope:	Long-term care insurance policies written by the company through the third-party administrator, LifePlans Inc., up to February 1, 2011
	Retention:	None
	Coverage:	100% of all direct long-term care business risk
	Premium:	100% of all direct long-term care premiums
	Commissions:	5% of gross premium written and 5% of paid claims
	Effective date:	May 1, 2002
	Termination:	Unlimited; either party may terminate at any time by giving 90 days' written notice

Nonaffiliated Assuming Contracts

1.	Type:	Quota Share – On a Funds Held Basis
	Reinsured:	Madison National Life Insurance Company, Inc. (MNL)
	Scope:	Group long-term disability business from MNL which was assumed from The Lafayette Life Insurance Company
	Coverage:	50% of group long-term disability policies issued by MNL and sold through NIS.
	Premium:	Net premiums attributable to the coverage percentages for group long-term disability business from MNL which was assumed from The Lafayette Life Insurance Company
	Commissions:	Agent's basic commission and an allowance for expenses, including premium taxes
	Effective date:	January 1, 2009
	Termination:	Automatically renewed annually until cancelled at any time by either party with 180 calendar days' advance written notice
2.	Type:	Quota Share – On a Funds Held Basis
	Reinsured:	Madison National Life Insurance Company, Inc.
	Scope:	Group long-term disability policies issued by MNL and sold through NIS
	Coverage:	10% of group long-term disability policies issued by MNL and sold through NIS

Premium:	10% of gross written premium for group long-term disability policies issued by MNL and sold through NIS
Commissions:	Expense allowance to MNL not to exceed 9% of the gross premium written
Effective date:	January 1, 2003
Termination:	Contract may be canceled by either party giving 180 days' prior written notice

Assuming Contracts in Run-off

1.	Type:	Quota Share – On a Funds Held Basis
	Reinsured:	American United Life Insurance Company
	Scope:	Existing long-term disability policies issued by AMEX Life Assurance Company and new group long-term disability insurance written by AUL and sold through NIS on or after January 1, 1996
	Coverage:	50% of the company's liability from an existing block of business and for new business groups in NIS exclusive territory with less than 500 lives. 75% for new business groups in NIS exclusive territory with greater than 500 lives and all non-school group business. 20% for all group business in NIS nonexclusive territory. 100% for negotiated groups.
	Premium:	Gross earned premiums as noted with existing long-term disability policies issued by AMEX Life Assurance Company and new group long-term disability insurance issued by NIS on or after January 1, 1996, in the same proportions as reinsurer coverage percentages
	Commissions:	10% expense allowance to the company
	Effective date:	January 1, 1996 (moved to Lafayette Life Insurance Company effective July 1, 2003)
	Termination:	Automatically renewed annually until cancelled at any time by mutual consent of both parties as of December 31 by giving 60 days' advance written notice
2.	Type:	Retrocession Agreement – On a Funds Held Basis
	Reinsured:	Hartford Life and Accident Insurance Company (Hartford)
	Scope:	Group long-term disability business from Hartford which was assumed from The Lafayette Life Insurance Company
	Coverage:	Groups with 1,000 covered lives or less – 50% Groups with over 1,000 covered lives – 25%

Premium:	Net premiums attributable to the coverage percentages for group long-term disability business from Hartford which was assumed from The Lafayette Life Insurance Company
Commissions:	10% expense combined allowance for The Lafayette Life Insurance Company. NIS expense allowance is based on actual NIS expenses incurred.
Effective date:	January 1, 2002 (risk was transferred to MNL effective January 1, 2009)
Termination:	Automatically renewed annually until cancelled at any time by either party

VI. FINANCIAL DATA

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

National Insurance Company of Wisconsin, Inc.
Assets
As of December 31, 2013

	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	$18,700,017	$	$18,700,017
Stocks:			
Preferred stocks	154,573		154,573
Common stocks	2,045,050		2,045,050
Real estate:			
Properties held for the production of income	417,305		417,305
Properties held for sale	16,500		16,500
Cash, cash equivalents, and short-term investments	1,162,256		1,162,256
Investment income due and accrued	99,438		99,438
Premiums and considerations:			
Uncollected premiums and agents' balances in course of collection	20,454		20,454
Reinsurance:			
Funds held by or deposited with reinsured companies	22,025,519		22,025,519
Other amounts receivable under reinsurance contracts	510,639		510,639
Current federal and foreign income tax recoverable and interest thereon	168,817		168,817
Receivable from parent, subsidiaries, and affiliates	61,887		61,887
Write-ins for other than invested assets:			
Prepaid expenses	12,306	12,306	
State taxes	10,531		10,531
Total Assets	$45,405,293	$12,306	$45,392,987

National Insurance Company of Wisconsin, Inc.
Liabilities, Surplus, and Other Funds
As of December 31, 2013

Losses		$23,263,435
Reinsurance payable on paid loss and loss adjustment expenses		1,332,202
Loss adjustment expenses		431,626
Other expenses (excluding taxes, licenses, and fees)		274,098
Taxes, licenses, and fees (excluding federal and foreign income taxes)		4,502
Net deferred tax liability		49,366
Advance premium		26,865
Ceded reinsurance premiums payable (net of ceding commissions)		291,901
Remittances and items not allocated		45,665
Total liabilities		25,719,660
Common capital stock	$ 2,000,000	
Gross paid in and contributed surplus	1,000,000	
Unassigned funds (surplus)	16,673,328	
Surplus as regards policyholders		19,673,328
Total Liabilities and Surplus		$45,392,988

National Insurance Company of Wisconsin, Inc.
Summary of Operations
For the Year 2013

Underwriting Income		
Premiums earned		$10,866,739
Deductions:		
Losses incurred	$5,908,588	
Loss adjustment expenses incurred	471,498	
Other underwriting expenses incurred	3,892,484	
Total underwriting deductions		10,272,570
Net underwriting gain (loss)		594,169
Investment Income		
Net investment income earned	665,010	
Net realized capital gains (losses)	59,646	
Net investment gain (loss)		724,655
Other Income		
Write-ins for miscellaneous income:		
Interest earned assumed reserves	839,523	
Total other income		839,253
Net income (loss) before dividends to policyholders and before federal and foreign income taxes		2,158,077
Dividends to policyholders		
Net income (loss) after dividends to policyholders but before federal and foreign income taxes		2,158,077
Federal and foreign income taxes incurred		694,891
Net Income		$ 1,463,187

National Insurance Company of Wisconsin, Inc.
Cash Flow
For the Year 2013

Premiums collected net of reinsurance			$11,179,123
Net investment income			801,610
Miscellaneous income			2,265,895
Total			14,246,627
Benefit- and loss-related payments		$6,603,317	
Commissions, expenses paid, and aggregate write-ins for deductions		4,093,884	
Dividends paid to policyholders			
Federal and foreign income taxes paid (recovered)		1,261,369	
Total deductions			11,958,570
Net cash from operations			2,288,058
Proceeds from investments sold, matured, or repaid:			
Bonds	$6,514,760		
Stocks	113,680		
Miscellaneous proceeds	10,985		
Total investment proceeds		6,639,425	
Cost of investments acquired (long-term only):			
Bonds	8,266,369		
Stocks	96,871		
Miscellaneous applications	3		
Total investments acquired		8,363,243	
Net cash from investments			(1,723,818)
Cash from financing and miscellaneous sources:			
Dividends to stockholders		604,000	
Other cash provided (applied)		271,614	
Net cash from financing and miscellaneous sources			(332,386)
Reconciliation:			
Net change in cash, cash equivalents, and short-term investments			231,853
Cash, cash equivalents, and short-term investments:			
Beginning of year			930,406
End of Year			$ 1,162,259

National Insurance Company of Wisconsin, Inc.
Compulsory and Security Surplus Calculation
December 31, 2013

Assets			$45,392,988
Less security surplus of insurance subsidiaries			
Less liabilities			25,719,660
Adjusted surplus			19,673,328
Annual premium:			
Individual accident and health	$ 16,648		
Factor	15%		
Total		$ 2,497	
Group accident and health	10,850,090		
Factor	10%		
Total		1,085,009	
Compulsory surplus (subject to a minimum of $2 million)			2,000,000
Compulsory Surplus Excess (or Deficit)			$17,673,327
Adjusted surplus (from above)			$19,673,328
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%)			2,800,000
Security Surplus Excess (or Deficit)			$16,873,327

National Insurance Company of Wisconsin, Inc.
Analysis of Surplus
For the Four-Year Period Ending December 31, 2013

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

	2013	2012	2011	2010
Surplus, beginning of year	$18,548,817	$17,808,128	$18,288,038	$16,808,041
Net income	1,463,187	2,755,630	1,307,094	2,325,538
Change in net unrealized capital gains/losses	300,956	197,547	(69,486)	190,699
Change in net deferred income tax	(129,861)	98,005	(136,230)	(341,912)
Change in nonadmitted assets	94,233	(91,495)	70,413	981,773
Dividends to stockholders	(604,000)	(2,219,000)	(1,651,700)	(1,676,100)
Surplus, End of Year	$19,673,328	$18,548,814	$17,808,128	$18,288,037

National Insurance Company of Wisconsin, Inc.
Insurance Regulatory Information System
For the Four-Year Period Ending December 31, 2013

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

	Ratio	2013	2012	2011	2010
#1	Gross Premium to Surplus	67%	71%	77%	78%
#2	Net Premium to Surplus	55	59	65	66
#3	Change in Net Premiums Written	(1)	(6)	(4)	(2)
#4	Surplus Aid to Surplus	0	0	0	0
#5	Two-Year Overall Operating Ratio	72	74	77	73
#6	Investment Yield	3.1	3.2	3.6	4.2
#7	Gross Change in Surplus	6	4	(3)	9
#8	Change in Adjusted Surplus	6	4	(3)	9
#9	Liabilities to Liquid Assets	116*	131*	137*	146*
#10	Agents' Balances to Surplus	0	0	0	0
#11	One-Year Reserve Development to Surplus	(19)	(56)	(19)	(25)
#12	Two-Year Reserve Development to Surplus	(37)	(50)	(35)	(38)
#13	Estimated Current Reserve Deficiency to Surplus	(20)	(44)	(31)	(28)

Ratio No. 9 measuring the liabilities to liquid assets ratio noted above is exceptional in all years due to the funds held reinsurance contracts, which result with larger reinsurance asset balances and lower liquid asset balances. At December 31, 2013, this balance of funds held by reinsurers was $22,025,519, or 48.52% of admitted assets.

Growth of National Insurance Company of Wisconsin, Inc.

Year	Admitted Assets	Liabilities	Surplus as Regards Policyholders	Net Income	Stockholder Dividends
2013	$45,392,988	$25,719,660	$19,673,328	$1,463,187	$ 604,000
2012	44,733,802	26,184,988	18,548,814	2,755,630	2,219,000
2011	46,485,948	28,677,820	17,808,128	1,307,094	1,651,700
2010	47,383,663	29,095,627	18,288,037	2,325,538	1,676,100
2009	47,287,391	30,479,349	16,808,042	2,235,193	0

Year	Direct Premium Written	Assumed Premium Written	Gross Premium Written	Net Premium Written	Premium Earned
2013	$4,456,669	$8,637,995	$13,094,664	$10,866,739	$10,866,739
2012	4,507,221	8,673,411	13,180,632	10,945,146	10,945,146
2011	4,506,314	9,285,550	13,791,864	11,596,332	11,596,332
2010	4,517,689	9,798,374	14,316,063	12,114,935	12,114,935
2009	5,065,262	9,849,300	14,914,562	12,425,544	12,425,544

Year	Loss and LAE Ratio	Expense Ratio	Combined Ratio
2013	58.7%	28.1%	86.8%
2012	39.7	29.1	68.8
2011	64.4	26.0	90.4
2010	54.4	24.8	79.2
2009	56.9	23.1	80.0

The steady decrease in gross premiums reflects the impact of management's decision to reduce its marketing efforts for new business. The examination noted that the company reported a net income in each of the past five years.

Reconciliation of Surplus per Examination

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

Examination Reclassifications

	Debit	Credit
Ceded reinsurance premiums payable	$183,402	$
Amounts recoverable from reinsurers	327,237	
Other amount receivable under reinsurance contracts		510,639
Total Reclassifications	$510,639	$510,639

VII. SUMMARY OF EXAMINATION RESULTS

Compliance with Prior Examination Report Recommendations

There were six specific comments and recommendations in the previous examination report. Comments and recommendations contained in the last examination report and actions taken by the company are as follows:

1. LAE Reserves—It is again recommended that the company establish LAE reserve allocations for Adjusting & Other Expense in accordance with SSAP 55.

   Action—Compliance

2. Agents' Balances—It is recommended that the company comply with SSAP No. 6, paragraph 9, and nonadmit agents' balances over 90 days past due.

   Action—Compliance

3. Remittances and items not allocated—It is recommended that the company report their premium suspense balance on line 15, remittances and items not allocated, in accordance with the NAIC Annual Statement Instructions – Property and Casualty.

   Action—Compliance

4. Preferred Stocks Custodial Agreement—It is recommended that the company obtain an amended custodial agreement from the custodian for its preferred stocks which satisfies the recommendations for indemnification of lost or stolen securities as set forth in the NAIC Financial Condition Examiners Handbook.

   Action—Compliance

5. Mortgage-Backed Securities Write-Downs to Fair Value—It is recommended that the company follow SSAP 43R to write down its residential mortgage-backed securities to fair value. It is further recommended that the company designate residential mortgage-backed securities with a "Z*" pursuant to the NAIC Purposes and Procedures Manual of the NAIC Securities Valuation Office.

   Action—Compliance

6. Disaster Recovery Plan—It is recommended that the company include the role of functional units in its disaster recovery plan. It is further recommended that the company periodically test the plan, at least annually.

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

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.

Disaster Recovery Planning and Testing

During the review of the company's IT environment it was noted that the company has not tested its disaster recovery/business continuity plan. It is likely that NIS/NICW would be able to recover in their alternate location if all staff is available, but they have not engaged in any test that shows that the backup hardware works for the recovery location or that they would be able to maintain business continuity with key employees missing. It is again recommended that the company develop a comprehensive disaster recovery plan that is tested at least annually, if only as a walkthrough or tabletop exercise, and that the plan be updated each time in response to the test results.

Schedule Y, Part 2, Reporting

During the review of the shareholders' dividends it was noted that NICW did not report any of the shareholder dividends reported on line 35 of the Statement of Income in column 2 of Schedule Y, Part 2, for each year under examination. It is recommended that shareholder dividends be reported on Schedule Y, Part 2, Summary of Insurer's Transactions with Affiliates, in accordance with NAIC Annual Statement Instructions – Property/Casualty.

Affiliated Agreement Settlement Terms

The examiners reviewed agreements between NICW and affiliate NIS for compliance to SSAP 25 transactions between affiliates. The agreements covered administrative services and commissions, profit-sharing, marketing, and tax allocation agreements between NICW and NSI (parent company) or NIS (affiliate). Some agreements with affiliates do not include terms to provide for timely settlement of amounts owed, with specified due dates. SSAP 25 (7) requires that "transactions between related parties must be in the form of a written agreement that provides for timely settlement of amounts owed, with a specified due date." It is recommended that the company amend its affiliated agreements to include a specific due date for timely settlement of amounts owed in accordance with SSAP 25.

Profit-Sharing Agreement

During the review of affiliated agreements, the examiners noted that NICW provided two separate profit-sharing agreements between NICW and NIS. The examiners also noted that a Form D had been received and non-disapproved by the Office of the Commissioner of Insurance for both agreements. However, a review of the Form B&C noted that the company only mentioned one profit-sharing agreement. Section Ins 40.03 (3), Wis. Adm. Code, provides that all agreements in force between the insurer and its affiliates, including management agreements, service contracts, and cost-sharing arrangements, shall be disclosed on an annual registration statement (Form B&C). It is recommended that the company report to the Commissioner of Insurance all holding company material affiliated transactions including all management agreements, service contracts, and cost-sharing arrangements, in compliance with the requirements of s. Ins 40.03 (3), Wis. Adm. Code.

Ceded Reinsurance Balances

During the review of ceded reinsurance balances, it was discovered that the company included reinsurance ceding commissions receivable on ceded business as an offset to amounts recoverable from reinsurers for paid losses. The resulting net amount was reported as other amounts receivable under reinsurance contracts on the asset page line 16.3. Per the NAIC Annual Statement Instructions – Property/Casualty, ceding commissions receivable shall be included as an offset to the liability for ceded reinsurance premiums payable. Further, amounts recoverable from reinsurers for paid losses shall be reported on its own preprinted line on the property and casualty annual statement blank. Accordingly, an adjustment was made to the balance for amounts recoverable from reinsurers for paid losses, and the adjusted ending balance was reclassified to the correct lines on the annual statement.

The examiners determined that based on the NAIC's Annual Statement Instructions – Property/Casualty, the proper reporting of these balances should have been as follows:

Asset Page Line 16.1 Amounts Recoverable from Reinsurers	$327,237.43
Liability Page Line 12 Ceded Reinsurance Premium Payable	$108,498.89

This reclassification has been reflected in Section V of this report under the heading "Examination Reclassifications." It is recommended that the company report reinsurance balances in their separate classifications on the annual statement according to the NAIC Annual Statement Instructions – Property/Casualty.

Business Continuity Plan

During the examination, it was noted that NICW does not have a formal business continuity plan nor does it appear to have a contingency plan for a sudden loss of key employees. Not having a business continuity plan poses a significant concern due to the potential loss of institutional knowledge critical to the company's business plan if key management or staff leave the company. Due to the limited number of employees, if a key employee were to leave, a significant amount of institutional knowledge would be lost. The Secretary oversees the underwriting, premiums and all other functions of the business other than accounting and claims. NICW has a computer program that generates a generic underwriting rate. The Secretary reviews the generic rate. Then, based on his knowledge and experience, he determines whether the computer-generated rate will be accepted as generated or adjusted. Also NICW is reliant on the Claims Manager for operation of the claims function. It is recommended that the company develop a business continuity plan to ensure smooth operations should a sudden loss of key personnel occur.

VIII. CONCLUSION

NICW writes group long-term disability and a small volume of group short-term disability insurance for school districts and municipalities. Gross premiums written decreased each year of the examination period. The steady decrease can be contributed to management's decision to reduce active marketing of new business. NICW continues to have adequate surplus.

NICW was originally organized in 1895 as a town mutual insurance company under the name Campbellsport Mutual Insurance Company. In 1980, the company converted to a stock insurance company, and from 1980 to 1989, the company's ultimate parent was American Express Company. The company was sold as an inactive shell corporation to National Services, Inc., in 1989.

The company complied with five of six prior examination recommendations. The recommendation that the company develop a comprehensive disaster recovery plan that is tested at least annually, if only as a walkthrough or tabletop exercise, and that the plan be updated each time in response to the test results, was repeated. The current examination resulted in five additional recommendations for a total of six. One recommendation resulted in three balance sheet reclassifications that resulted in zero impact to surplus.

IX. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 28 - Disaster Recovery Planning and Testing—It is again recommended that the company develop a comprehensive disaster recovery plan that is tested at least annually, if only as a walkthrough or tabletop exercise, and that the plan be updated each time in response to the test results.

2. Page 28 - Schedule Y, Part 2, Reporting—It is recommended that shareholder dividends be reported on Schedule Y, Part 2, Summary of Insurer's Transactions with Affiliates, in accordance with NAIC Annual Statement Instructions – Property/Casualty.

3. Page 28 - Affiliated Agreement Settlement Terms—It is recommended that the company amend its affiliated agreements to include a specific due date for timely settlement of amounts owed in accordance with SSAP 25.

4. Page 29 - Profit Sharing Agreement—It is recommended that the company report to the Commissioner of Insurance all holding company material affiliated transactions including all management agreements, service contracts, and cost-sharing arrangements, in compliance with the requirements of s. Ins 40.03 (3), Wis. Adm. Code.

5. Page 30 - Ceded Reinsurance Balances—It is recommended that the company report reinsurance balances in their separate classifications on the annual statement according to the NAIC Annual Statement Instructions – Property/Casualty.

6. Page 30 - Business Continuity Plan—It is recommended that the company develop a business continuity plan to ensure smooth operations should a sudden loss of key personnel occur.

X. ACKNOWLEDGMENT

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

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

Name	Title
Raymond Kangogo	Insurance Financial Examiner
James Lindell	Insurance Financial Examiner
Fred Thornton	Workpaper Specialist
David Jensen	IT Specialist
Jerry DeArmond	Reserve Specialist

Respectfully submitted,

Marisa Rodgers
Examiner-in-Charge