Report

of the

Examination of

Partners Mutual Insurance Company

Waukesha, Wisconsin

As of December 31, 2014

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State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

Scott Walker, *Governor*
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May 19, 2016

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:

PARTNERS MUTUAL INSURANCE COMPANY
Waukesha, Wisconsin

and this report is respectfully submitted.

I. INTRODUCTION

The previous examination of Partners Mutual Insurance Company (the company or PMIC) 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 organized in 1931 as Badger State Casualty Company, Limited Mutual. In February 1992, with approval of the company's policyholders, the company changed its name to Partners Mutual Insurance Company. Effective January 1, 2012, Partners Mutual Insurance Company affiliated with Pennsylvania National Mutual Casualty Insurance Company (PNMCIC). The affiliation includes a reinsurance pooling agreement under which PMIC became a participant in PNMCIC's reinsurance pool, and a management agreement, under which PMIC utilizes PNMCIC's services. The affiliation agreement places five representatives of PNMCIC on the PMIC board of directors. PMIC continues to operate as a separate entity writing commercial and personal lines in Wisconsin and Iowa but pools risks, shares common services, and has common directors with PNMCIC as described in this report.

In 2014, the company wrote direct premium in the following states:

Iowa	$ 5,665,586	19.25%
Wisconsin	23,767,756	80.75
Total	$29,433,342	100.00%

The company is licensed in Wisconsin, Iowa, Michigan and Pennsylvania, but writes premium in Wisconsin and Iowa only. It discontinued writing premium in Michigan as of September 2011. The major products marketed by the company include auto physical damage, private passenger auto, homeowner's multi-peril, commercial multi-peril, and worker's compensation. The major products are marketed through 857 independent agents at 111 agencies in Iowa and Wisconsin.

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	$ 126,217	$ 788,148	$ 126,217	$ 788,148
Allied lines	117,484	74,467	117,484	74,467
Homeowner's multiple peril	7,506,332	1,692,228	7,506,331	1,692,228
Commercial multiple peril	2,754,599	965,922	2,754,599	965,922
Inland marine	874,514	329,484	874,514	329,484
Worker's compensation	1,373,200	1,716,268	1,373,200	1,716,268
Other liability – occurrence	531,767	1,480,881	554,569	1,458,079
Products liability – occurrence		455,226		455,226
Private passenger auto liability	7,738,762	2,329,913	7,738,762	2,329,913
Commercial auto liability	592,207	1,452,650	592,207	1,452,650
Auto physical damage	7,818,261	1,915,224	7,818,261	1,915,224
Fidelity		10,644		10,644
Surety		137,712		137,712
Burglary and theft		23		23
Total All Lines	$29,433,342	$13,348,789	$29,456,144	$13,325,988

Effective January 1, 2012, PMIC received permission to report worker's compensation loss reserves using a non-tabular method of discounting. On January 1, 2012, PMIC joined and assumes 2% of an affiliated reinsurance pool led by PNMCIC, which utilizes a non-tabular discounting method for worker's compensation loss reserves. The financial impact as of December 31, 2014, was a $595,948 reduction in loss and LAE reserves and an increase in surplus of the same amount.

III. MANAGEMENT AND CONTROL

Board of Directors

The board of directors consists of nine members. Three directors are elected every two years to serve a six-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. Pursuant to the affiliation agreement PNMCIC obtained control of the board of directors of PMIC by maintaining five representatives of PNMCIC on the nine-member PMIC board. Board members who are not current employees of PNMCIC receive an annual retainer of $5,000 and a fee for attending each regular quarterly board meeting of $1,000, plus reasonable expenses, for serving on the board.

Currently the board of directors consists of the following persons:

Name and Residence	Principal Occupation	Term Expires
Robert B. Brandon* Lewisberry, PA	Executive VP and COO Pennsylvania National Mutual Casualty Insurance Company	2021
Mark H. Ewert Brookfield, WI	Executive VP and COO Partners Mutual Insurance Company	2019
Michael N. Herro Waukesha, WI	President and CEO Nickal, LLC	2019
Marc A. Lauret Pewaukee, WI	Exec VP and Treasurer Duwe Metal Products Inc.	2017
Mark F. Roethle Wauwatosa, WI	Research Associate Medical College of Wisconsin	2021
John H. Rhodes* Mechanicsburg, PA	President Rhodes Development Group	2021
Richard A. Maffuccio* Waukesha, WI	President and CEO Partners Mutual Insurance Company	2017
Christine Sears* Harrisburg, PA	President and CEO Pennsylvania National Mutual Casualty Insurance Company	2019
Kenneth R. Shutts* Harrisburg, PA	Retired	2017

* Denotes representatives of PNMCIC.

Officers of the Company

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

Name	Office	2014 Compensation
Richard A. Maffuccio	President and CEO	$241,897*
Mark H. Ewert	Executive Vice President, Treasurer (2014) Secretary (as of May 2015)	198,987
Suzanne Chrisemer**	Secretary (2014 until May 2015) and VP-Underwriting	151,677
Robert A. Potter	Treasurer (as of May 2015), PNMCIC Controller	0

* Includes compensation paid to Richard Maffuccio for role as Regional Vice President of PNMCIC.

** In May of 2015 Suzanne Chrisemer returned to a position at PNMCIC in Pennsylvania. Mark Ewert resumed duties of corporate secretary in addition to his continued duties as Executive Vice President and COO. Robert Potter was elected to the position of Treasurer. Mr. Potter is Vice President and Controller of PNMCIC.

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
Mark H. Ewert, Chair
Marc A. Lauret
Richard A. Maffuccio
John H. Rhodes

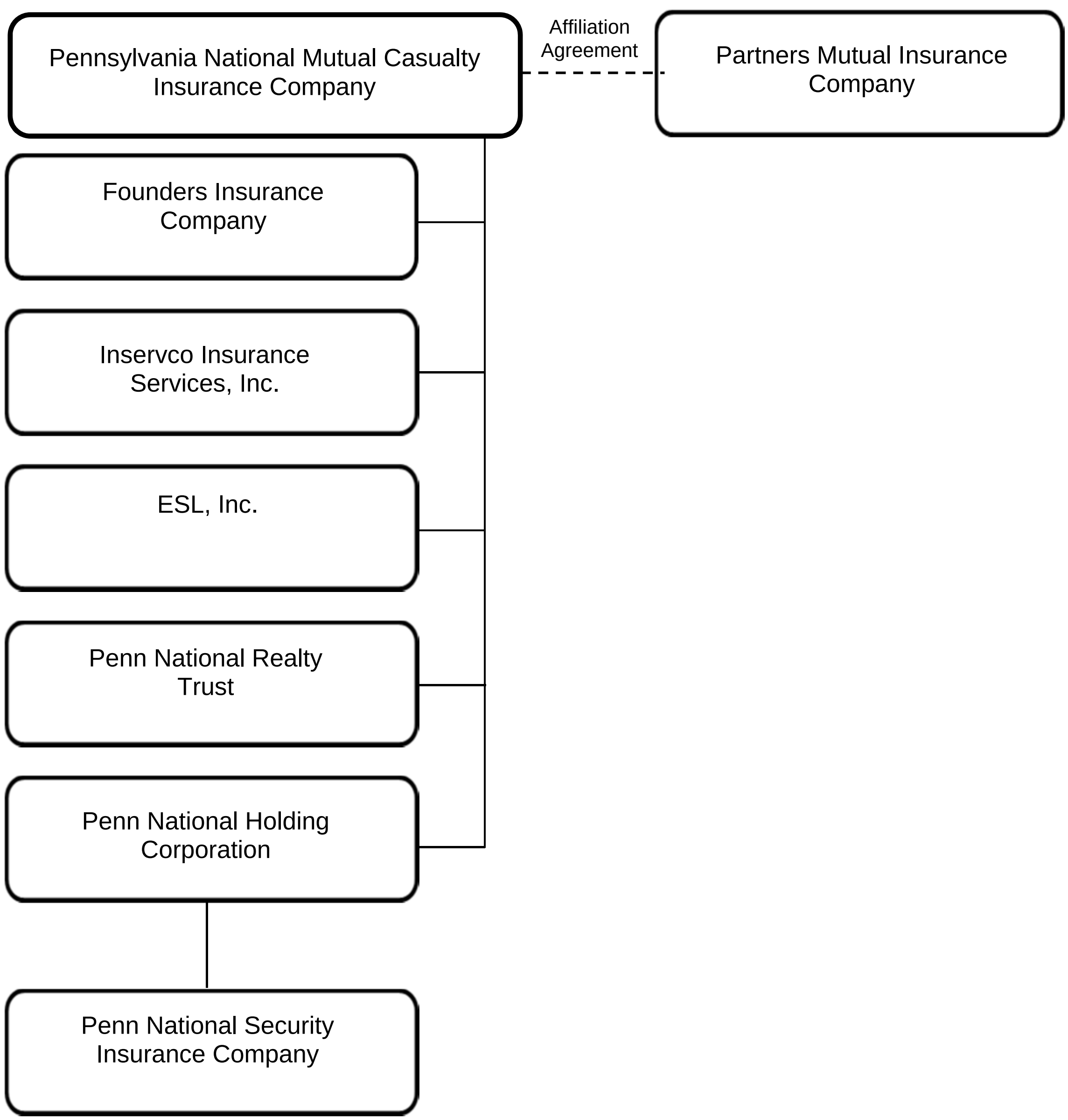
Nominating Committee
Christine Sears, Chair
Michael N. Herro
Mark F. Roethle
Kenneth R. Shutts

Salary Committee
Christine Sears, Chair
Robert B. Brandon
Michael N. Herro

IV. AFFILIATED COMPANIES

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

Organizational Chart
As of December 31, 2014



Pennsylvania National Mutual Casualty Insurance Company

PNMCIC is a multi-line property and casualty insurance company with a nine-state market territory. Pennsylvania, North Carolina, New Jersey, and Alabama represent the largest states. Through an affiliation agreement, PNMCIC maintains control of Partners Mutual Insurance Company by placing a majority of the PNMCIC's representatives on the PMIC board of directors. As of December 31, 2014, the audited financial statements of PNMCIC reported assets of $1,192,559,503, liabilities of $633,731,862, and capital and surplus of $558,827,641. Operations for 2014 produced net income of $23,811,221.

Penn National Security Insurance Company

Penn National Security Insurance Company (PNSIC) is a Pennsylvania stock, property and casualty insurance company and is an indirectly wholly owned subsidiary of PNMCIC. PNSIC is party to a pooling agreement with its ultimate parent, PNMCIC, and PMIC. PNSIC is licensed to write commercial and personal lines of business and actively writes commercial lines of business on a direct basis in the states of Alabama, Delaware, Maryland, New Jersey, North Carolina, Pennsylvania, South Carolina, Tennessee, Virginia, and the District of Columbia. As of December 31, 2014, the audited financial statements of PNSIC reported assets of $894,053,738, liabilities of $606,850,992, and capital and surplus of $287,202,746. Operations for 2014 produced net income of $18,395,792.

Founders Insurance Company

Founders Insurance Company (Founders) is a New Jersey stock insurance company and is a wholly owned subsidiary of PNMCIC. Founders is licensed to offer a full line of property and casualty products in the state of New Jersey. Founders entered into a reinsurance agreement with PNMCIC whereby Founders cedes 100% of its direct and assumed insurance business to PNMCIC, including all related fees and expenses. As of December 31, 2014, the audited financial statements of Founders reported assets of $6,325,840, liabilities of $732, and capital and surplus of $6,325,108. Operations for 2014 produced a net loss of $40,049.

Inservco Insurance Services, Inc.

Inservco Insurance Services, Inc.(Inservco), a wholly owned subsidiary of PNMCIC, is a third-party claims administrator and full service risk management services company. Inservco provides claims adjusting services and other insurance-related services to individual and group self-insured programs, insurance companies, and governmental agencies. As of December 31, 2014, the audited financial statements of Inservco reported assets of $15,204,273, liabilities of $6,601,071, and total common stockholder's equity of $8,603,202.

ESL, Inc.

ESL, Inc.(ESL), a wholly-owned subsidiary of PNMCIC, is a trustee of Penn National Realty Trust. ESL, currently inactive, was operated as a wholesale insurance brokerage firm and a Managing General Agent. Effective May 1, 2008, ESL sold the majority of its business to ASL, Inc., and did not renew the retained policies in 2009. As of December 31, 2014, the financial statements of PNMCIC reported an adjusted carrying value for ESL of $0.

Penn National Realty Trust

Penn National Realty Trust (Realty Trust), the owner of the Harrisburg home office of PNMCIC, serves a property rental function. PNMCIC pays rent to Realty Trust for the entire home office and parking garage complex. As of December 31, 2014, the audited financial statements of Realty Trust reported assets of $28,908,411, liabilities of $18,829,982, and total common stockholder's equity of $10,078,429.

Penn National Holding Corporation

Penn National Holding Corporation (PNHC), a wholly owned subsidiary of PNMCIC, is listed as an inactive holding company. PNHC was formed in December of 1995 in order to gain access to capital markets. As of December 31, 2014, the audited financial statements of PNHC and Subsidiary reported assets of $1,134,323,000, liabilities of $809,280,000, and total common stockholder's equity of $325,043,000.

Agreements with Affiliates

Affiliation Agreement

Effective January 1, 2012, PMIC and PNMCIC entered into an affiliation agreement under which PNMCIC obtained a majority of the nine-member PMIC board of directors. The affiliation includes a reinsurance pooling agreement, under which PMIC became a participant in PNMCIC's reinsurance pool, and a management agreement under which PMIC utilizes PNMCIC's services. The pooling arrangement is described in the section of this report titled "Reinsurance."

Management Agreement

Effective January 1, 2012, PMIC and PNMCIC entered into a management agreement. The management agreement provides for PNMCIC to offer certain services to PMIC in connection with the management and operation of PMIC, including reinsurance pricing and procurement, investment services, actuarial analysis, underwriting, human resources and employee benefits administration, policyholder services, legal services, corporate and tax accounting, record keeping and financial reporting, information technology services, marketing, compliance and strategic planning, premium collection and refunds, claims management and settlement, and such other services as the parties mutually agree. In the event that PNMCIC advances any funds or incurs any expenses in performing services or other duties or obligations under the Management Agreement, PMIC shall reimburse PNMCIC for all out-of-pocket advances, costs and expenses incurred by PNMCIC in carrying out its obligations. Within 30 days following the end of each calendar quarter in which services are provided, PNMCIC shall submit to PMIC a statement setting forth all reimbursable expenses due and payable. Within 15 days after receipt of the statement, PMIC shall pay to PNMCIC the amounts due.

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.

Pooling Agreement

On January 1, 2012, PMIC entered into an intercompany pooling agreement with PNMCIC and Penn National Security Insurance Company, which provides terms and conditions for the allocation of premiums, losses, loss adjusting expenses, loss recoveries, and general expenses. According to the terms of this agreement, PMIC cedes 100% of premiums, losses, loss adjusting expenses, loss recoveries, and general underwriting expenses to the pool and receives a 2% share of the pooled financial results. PNMCIC and Penn National Security Insurance Company each share 49% of the pool business. PNMCIC administers this agreement and performs all services in connection with the agreement, including purchasing reinsurance from third parties for the pool business.

Non-affiliated Ceding Contracts

PMIC is a party to a number of ceding reinsurance agreements administered by PNMCIC on behalf of its subsidiaries and affiliates. All non-affiliated ceding reinsurance contracts except contract #11 are multi-cedent reinsurance contracts and apply to PNMCIC and all of its insurance subsidiaries and affiliates. Contracts #1 and #2, each 50% subscribed, provide similar but not identical coverages for the pool.

1. Type: First Multiple Line Excess of Loss with Second, Third, and Fourth Casualty per Occurrence Excess of Loss

   Company: PNMCIC and insurance affiliates

   Reinsurer: Through intermediary – Various as brokered through Guy Carpenter and Company LLC, at 50% participation

	Participation			
Reinsurer	**1st Layer**	**2nd Layer**	**3rd Layer**	**4th Layer**
Hannover Rück SE	35.00%	35.00%	35.00%	35.00%
Swiss Reinsurance America Corporation	15.00	15.00	15.00	15.00
Total	50.00%	50.00%	50.00%	50.00%

Scope:	Class A – Property: All policies classified by the company as Homeowners Section I, Business Owners Section I, Commercial Multi-Peril Section I, Automobile Physical Damage, Fire, Allied Lines, Inland Marine, Burglary and Theft. Class B – Casualty: For First Line Multiple Excess of Loss, all policies classified by the company as Homeowners Section II, Business Owners Section II, Commercial Multi-Peril Section II, General Liability, Automobile Liability, Worker's Compensation (including Employer's Liability and Occupational Disease). For Second, Third, and Fourth Casualty Per Occurrence Excess of Loss, all policies classified by the company as Homeowners Section II, Business Owners Section II, Commercial Multi-Peril Section II, General Liability, Automobile Liability, Product Liability, Worker's Compensation (including Employer's Liability and Occupational Disease).
Retention:	<u>Property</u>: First Layer – $1,500,000 of ultimate net loss each risk, each loss <u>Casualty</u>: First Layer – $1,500,000 of ultimate net loss from each loss occurrence Second Layer – $5,000,000 of ultimate net loss from each loss occurrence Third Layer – $10,000,000 of ultimate net loss from each loss occurrence Fourth Layer – $15,000,000 of ultimate net loss from each loss occurrence
Coverage:	<u>Property</u>: First Layer – $3,500,000 excess of $1,500,000 retention of ultimate net loss each risk, each loss with maximum limit of $7,000,000 any one loss occurrence <u>Casualty</u>: First Layer – $3,500,000 excess of $1,500,000 retention of each and every loss occurrence Second Layer – $5,000,000 excess of $5,000,000 retention of each and every loss occurrence Third Layer – $5,000,000 excess of $10,000,000 retention of each and every loss occurrence Fourth Layer – $5,000,000 excess of $15,000,000 retention of each and every loss occurrence For coverage beyond fourth layer of Worker's Compensation and Employer's Liability policies, see Reinsurance Contract #6 below

Acts of Terrorism:
First Layer – $3,500,000 of ultimate net loss any one event, with maximum aggregate limit of $7,000,000 all events

Reinsurance coverage for terrorism activities in Second to Fourth layers is limited, in aggregate, to reinsurer's limit of liability per single occurrence

	Premium:	First Layer – Rate of 0.9859% applied to the subject net earned premium and an annual deposit premium of $4,859,200 subject to a minimum of $3,887,360
		Second Layer – Rate of 0.2359% applied to the subject net earned premium and an annual deposit premium of $904,000 subject to a minimum of $723,200
.		Third Layer – Rate of 0.1082% applied to the subject net earned premium and an annual deposit premium of $414,900 subject to a minimum of $331,920
		Fourth Layer – Rate of 0.0959% applied to the subject net earned premium and an annual deposit premium of $367,600 subject to a minimum of $294,080
	Reinstatement:	First Layer: seven reinstatements; the first and sixth and seventh are free, the remaining four are at additional premium
		Second through Fourth Layers: one reinstatement per each layer, at additional premium
	Effective date:	January 1, 2015
	Termination:	December 31, 2015
2.	Type:	Multiple Line Excess of Loss with First, Second, Third, and Fourth Clash Excess of Loss
	Company:	PNMCIC and insurance affiliates
	Reinsurer:	Munich Reinsurance America, Inc., at 50% participation
	Scope:	Class A – Property: All policies classified by the company as Homeowners Section I, Business Owners Section I, Commercial Multi-Peril Section I, Automobile Physical Damage for auto dealers and voluntary emergency service organization (VESO) programs, Fire, Allied Lines, Inland Marine, Burglary and Theft.
		Class B – Casualty: For Multiple Line Excess of Loss, all policies classified by the company as Worker's Compensation (including Employer's Liability and Occupational Disease). For First, Second, Third, and Fourth Clash Excess of Loss, all policies classified by the company as Homeowners Section II, Business Owners Section II, Commercial Multi-Peril Section II, General Liability, Automobile Liability, Product Liability, Worker's Compensation (including Employer's Liability and Occupational Disease).

Retention:	<u>Property</u>: Multiple Line Excess of Loss – $1,500,000 of ultimate net loss each risk, each loss <u>Casualty</u>: Multiple Line Excess of Loss – 1,500,000 of ultimate net loss from each loss occurrence (applies to worker's compensation only) First Clash Layer – $1,500,000 of ultimate net loss from each loss occurrence Second Clash Layer – $5,000,000 of ultimate net loss from each loss occurrence Third Clash Layer – $10,000,000 of ultimate net loss from each loss occurrence Fourth Clash Layer – $15,000,000 of ultimate net loss from each loss occurrence
Coverage:	<u>Property</u>: Multiple Line Excess of Loss – $3,500,000 excess of $1,500,000 retention of ultimate net loss each risk, each loss with maximum limit of $8,750,000 any one loss occurrence <u>Casualty</u>: Multiple Line Excess of Loss – $3,500,000 excess of $1,500,000 retention of each and every loss occurrence (for Worker's Compensation policies only). Reinsurer's limit of liability is $3,500,000 per any one occurrence. The company participates with a 25% share of loss in the first reinstatement of coverage and all subsequent reinstatements are fully covered by reinsurer at 100%. First Clash Layer – $3,500,000 excess of $1,500,000 retention of each and every loss occurrence. This layer does not apply when there is a Property only loss, a Worker's Compensation only loss, or a combination thereof. Second Clash Layer – $5,000,000 excess of $5,000,000 retention of each and every loss occurrence Third Clash Layer – $5,000,000 excess of $10,000,000 retention of each and every loss occurrence Fourth Clash Layer – $5,000,000 excess of $15,000,000 retention of each and every loss occurrence <u>Acts of Terrorism</u>: Multiple Line Excess of Loss – reinsurer liability is limited to $3,500,000 annually in the aggregate as respects one or more of the casualty classes and to $8,750,000 as respects property classes of insurance; and to $8,750,000 as respects both property and casualty classes

Reinsurance coverage for terrorism activities in each clash layer is limited, in aggregate, to reinsurer's limit of liability per single occurrence

For coverage beyond Fourth Clash layer of Worker's Compensation and Employer's Liability policies, see Reinsurance Contract #6 below

Premium: Multiple Line Excess of Loss Layer – Rate of 1.250% applied to the subject net earned premium and an annual deposit premium of $6,162,000 subject to a minimum of $4,928,000

First Clash Layer – Rate of 0.377% applied to the subject net earned premium and an annual deposit premium of $1,100,000 subject to a minimum of $880,000

Second Clash Layer – Rate of 0.246% applied to the subject net earned premium and an annual deposit premium of $942,000 subject to a minimum of $754,000

. Third Clash Layer – Rate of 0.101% applied to the subject net earned premium and an annual deposit premium of $388,000 subject to a minimum of $310,000

Fourth Clash Layer – Rate of 0.080% applied to the subject net earned premium and an annual deposit premium of $306,000 subject to a minimum of $246,000

Reinstatement: Multi-line Excess of Loss Layer – free and unlimited; all clash layers have one full reinstatement with provisional reinstatement premium (excluding terrorism activities)

Effective date: January 1, 2015

Termination: January 1, 2016

3. Type: Underlying Property Catastrophe Excess of Loss

Company: PNMCIC and insurance affiliates

Reinsurer: Through intermediary – Various as brokered through Guy Carpenter and Company LLC. See Exhibit A at the end of this section. This contract is 50% placed.

Scope: All policies classified by the company as automobile physical damage, earthquake, fire, allied lines, inland marine, glass and the property portion of multiple peril type business

Retention: $10,000,000, each loss occurrence plus 50% of the excess up to $20,000,000

Coverage: $10,000,000, each loss occurrence (50% placement)

Premium: Rate of 1.79% applied to the subject net earned premium and an annual deposit premium of $3,500,000 subject to a minimum of $2,800,000 (50% placement)

	Reinstatement:	One full reinstatement at additional premium
	Effective date:	January 1, 2015
	Termination:	December 31, 2015
4.	Type:	Four Layers Property Catastrophe Excess of Loss
	Company:	PNMCIC and insurance affiliates
	Reinsurer:	Through intermediary – Various as brokered through Guy Carpenter and Company LLC. See Exhibit B at the end of this section for a list of participants and reinsurance rates.
	Scope:	All policies classified by the company as automobile physical damage, earthquake, fire, allied lines, inland marine, glass and the property portion of multiple peril type business
	Retention:	First Layer – $20,000,000 each and every loss occurrence Second Layer – $40,000,000 each and every loss occurrence Third Layer – $100,000,000 each and every loss occurrence Fourth Layer – $140,000,000 each and every loss occurrence
	Coverage:	First Layer – $20,000,000 each and every loss occurrence Second Layer – $60,000,000 each and every loss occurrence Third Layer – $40,000,000 each and every loss occurrence Fourth Layer – $20,000,000 each and every loss occurrence
	Reinstatement:	All layers have full reinstatement with provisional reinstatement premium
	Effective dates:	First, Second and Third Layers: January 1, 2015, to December 31, 2015 (70% participation) January 1, 2014, to December 31, 2016 (30% participation) Fourth Layer: January 1, 2015, to December 31, 2015 (100% participation)
5.	Type:	Property Catastrophe Aggregate Excess of Loss
	Company:	PNMCIC and insurance affiliates
	Reinsurer:	Through intermediary – Various as brokered through Guy Carpenter and Company LLC. See Exhibit C at the end of this section.
	Scope:	All policies classified by the company as automobile physical damage, earthquake, fire, allied lines, inland marine, glass and the property portion of multiple peril type business. Excludes losses from any named tropical cyclone.

Retention:	$10,000,000, aggregate of subject net loss from all loss occurrences, where subject net loss means amount by which the ultimate net loss for each occurrence exceeds $1,500,000, to a maximum of $8,500,000.
Coverage:	$10,000,000 excess of $10,000,000 aggregate of subject net losses from loss occurrences
Premium:	Rate of 1.383% applied to the subject net earned premium and an annual deposit premium of $2,700,000 subject to a minimum of $2,160,000
Reinstatement:	None.
Effective date:	January 1, 2015
Termination:	December 31, 2015

6. Type: Worker's Compensation Excess of Loss

Company:	PNMCIC and insurance affiliates
Reinsurer:	Through intermediary – Various as brokered through Guy Carpenter and Company LLC

Reinsurer	**Participation**
Arch Reinsurance Company	18.00
Hannover Rück SE	10.00
Odyssey Reinsurance Company	4.00
Partner Reinsurance Company of the U.S.	4.50
Safety National Casualty Corporation	18.00
London: Various Lloyd's Underwriters	45.50
Total	100.00%

Scope:	All policies classified as Worker's Compensation and Employer's Liability
Retention:	$20,000,000 each and every occurrence
Coverage:	$11,000,000, excess of $20,000,000 retention each loss occurrence. For loss occurrences arising out of Acts of Terrorism, coverage is $11,000,000 for any one event and aggregate limit of $11,000,000 as respects all events. For underlying coverage below $20,000,000 retention of Worker's Compensation and Employer's Liability policies, see Reinsurance Contract #1 and #2 above For additional coverage of loss occurrences arising out of Acts of Terrorism, see Reinsurance Contract #1, #2, and #7
Premium:	Rate of 0.3617% applied to the subject net earned premium and an annual deposit premium of $330,000 subject to a minimum of $264,000
Reinstatement:	One full reinstatement at additional premium

	Effective date:	January 1, 2015
	Termination:	December 31, 2015
7.	Type:	Nuclear, Biological, Chemical, and Radiological Terrorism Excess of Loss
	Company:	PNMCIC and insurance affiliates
	Reinsurer:	Through intermediary – Various as brokered through Guy Carpenter and Company LLC. London: Various Lloyd's Underwriters have 100% participation.
	Scope:	All loss occurrences arising out of or related to a Nuclear, Biological, Chemical, and Radiological (NBCR) terrorist activity
	Retention:	$10,000,000 each and every occurrence.
	Coverage:	$21,000,000 excess of $10,000,000 retention of each loss occurrence, each loss with maximum limit of $21,000,000 any one loss occurrence and $21,000,000 all losses occurring during term of contract For underlying coverage below $10,000,000 for losses resulting from terrorist activity, see Reinsurance Contract #1, #2, and #6 above
	Premium:	The company shall pay $210,000 per annual term
	Reinstatement:	None
	Effective date:	January 1, 2015
	Termination:	December 31, 2015
8.	Type:	Cyber Coverage Quota Share Reinsurance Agreement
	Company:	PNMCIC and insurance affiliates
	Reinsurer:	Berkley Insurance Company
	Scope:	All business classified as cyber coverage
	Retention:	20% of ultimate net liability on all new and renewal cyber coverage policies
	Coverage:	80% of ultimate net liability on all new and renewal cyber coverage policies, subject to a maximum policy limit of $1,000,000
	Premium:	80% of the gross written premium for each policy reinsured under this contract
	Commissions:	30% ceding commission
	Effective date:	November 1, 2015

	Termination:	November 1, 2018; may be terminated by either party by giving to the other party 90 days' prior written notice
9.	Type:	Commercial and Personal Umbrella Liability Excess of Loss
	Company:	PNMCIC and insurance affiliates
	Reinsurer:	Munich Reinsurance America, Inc.
	Scope:	Class A – Commercial umbrella liability Class B – Personal umbrella liability
	Retention:	Class A – Commercial umbrella liability $1,000,000 each and every loss occurrence Class B – Personal umbrella liability $1,000,000 each and every loss occurrence
	Coverage:	Class A – Commercial umbrella liability $9,000,000, each loss occurrence Class B – Personal umbrella liability $4,000,000, each loss occurrence
	Premium:	Class A – Commercial umbrella liability 33.0% of gross written premium for limit of liability on commercial umbrella liability up to $10,000,000 with 0.5% of gross written premium for clash coverage Class B – Personal umbrella liability 33.0% of gross written premium for limit of liability on personal umbrella liability up to $5,000,000 with 0.5% of gross written premium for clash coverage
	Commissions:	Class A and Class B – 30.25% ceding commission
	Effective date:	January 1, 2015
	Termination:	Continuous; may be terminated at the close of any agreement year quarter by either party giving to the other not less than 90 days' prior written notice
10.	Type:	Employment Practices Liability Quota Share Coverage
	Company:	PNMCIC and insurance affiliates
	Reinsurer:	General Reinsurance Corporation
	Scope:	Class A – Individually Underwritten Employment Practices Liability Class B – Portfolio Employment Practices Liability
	Retention:	Class A – 50% of the first $100,000 net loss each claim, and 10% of the next $900,000 net loss each claim in excess of the first $100,000. Limit of liability to company not to exceed $1,000,000 each claim/ $1,000,000 aggregate limit. Class B – 50% of the policy limit. Limit of liability to company not to exceed $100,000 each claim/ $100,000 aggregate limit.

	Coverage:	Class A – 50% of the first \$100,000 net loss each claim, and 90% of the next \$900,000 net loss each claim in excess of the first \$100,000. Adjustment expense is covered proportionate to reinsurer's share of loss, unless there is no net loss, and then 50% of adjustment expenses are covered. Class B – 50% of the policy limit. Adjustment expense is covered proportionate to reinsurer's share of loss, unless there is no net loss, and then 50% of adjustment expenses are covered.
	Premium:	Class A – Premium rate varies based on the policy type, limit of liability, and deductible option Class B – 50% share of written premium
	Commissions:	Class A – Fixed commission allowance of 25% of reinsurance premium Class B – Fixed commission allowance of 25% of reinsurance premium
	Effective date:	July 1, 2011; PMIC was added to this contract effective September 1, 2013
	Termination:	Continuous; may be terminated by either party giving the other 120 days' prior notice in writing
11.	Type:	Equipment Breakdown
	Company:	PMIC
	Reinsurer:	Factory Mutual Insurance Company
	Scope:	Equipment breakdown liability
	Retention:	None
	Coverage:	Maximum \$5,000,000 on any one risk without prior approval from reinsurer
	Premium:	100% share of written premium, remitted quarterly
	Commissions:	35.0% ceding commission plus profit-sharing of one-half of difference between losses incurred and 30% of premiums earned. If losses incurred exceed 30% of premiums earned, the deficit will be carried to calculation for next profit-sharing period.
	Effective date:	July 1, 2014
	Termination:	By mutual consent or by either party on April 1, July 1, October 1 or January 1 with 180 days' notice by registered mail.

Exhibit A
Underlying Property Catastrophe Excess of Loss
Participation Schedule

Reinsurer	**Participation**
American Agricultural Insurance Company	7.5%
Amlin Bermuda	1.50
Arch Reinsurance Company	4.50
Argo Reinsurance Limited	3.00
Employers Mutual Casualty Company	1.50
Hannover Re (Bermuda) Limited	2.00
Odyssey Reinsurance Company	1.50
Platinum Underwriters Bermuda Limited	4.00
R+V Versicherung AG	12.50
Shelter Mutual Insurance Company	1.50
XL Re Ltd.	5.00
London: Various Lloyd's Underwriters	5.50
Total	50.00%

Exhibit B
Property Catastrophe Excess of Loss
Participation Schedule

	1st Layer		**2nd Layer**		**3rd Layer**		**4th Layer**
Reinsurers	**1 Year**	**3 Year**	**1 Year**	**3 Year**	**1 Year**	**3 Year**	**1 Year**
American Agricultural Ins Co	10.000%	0.000%	6.500%	0.000%	2.500%	0.000%	2.500%
Amlin Bermuda	1.250	2.143	1.320	2.143	1.290	2.143	
Arch Re Co		2.133		2.133	3.000	2.133	5.000
Argo Reinsurance Ltd	3.000		5.000				
Employers Mutual Casualty Co	1.500		2.000		1.500		1.500
Everest Reinsurance Co							7.500
Hamilton Re, Ltd			2.750		1.500		5.000
Hannover Re (Bermuda) Ltd	2.000		5.000		4.000		5.000
Lancashire Insurance Co Ltd		0.714		0.714		0.714	
Mapfre Re Compania De Reaseguros, S.A.	2.500		10.000		9.000		10.000
Markel Bermuda Limited		2.667		2.667		2.667	
Montpelier Reinsurance Ltd		3.50		3.500		3.500	
MS Frontier Reinsurance Limited					20.000		32.500
Odyssey Reinsurance Co	1.500				2.000		5.000
Partner Reinsurance Co Ltd		2.133		2.133		2.133	

Reinsurers	1st Layer		2nd Layer		3rd Layer		4th Layer
	1 Year	3 Year	1 Year	3 Year	1 Year	3 Year	1 Year
Platinum Underwriters Bermuda Ltd			2.750				
Qatar Reinsurance Co, LLC	0.500		2.000		1.500		
QBE Reinsurance Corp	4.000		4.000		4.000		
R+V Versicherung AG	12.500		12.500		12.500		6.500
Shelter Mutual Insurance Co	1.000		2.750		1.000		2.000
Tokio Millenium Re AG, Bermuda Branch	1.240	1.067	1.000	1.067		1.067	
Validus Reinsurance, Ltd		3.50		3.500		3.500	
XL Re Ltd					1.500		2.500
Various Lloyd's Underwriters	29.010%	12.143%	12.430%	12.143%	4.710%	12.143%	15.000%
Subtotal (by contract)	70%	30%	70%	30%	70%	30%	
Total (by each layer)	100%		100%		100%		100%
Rates	1.41%	1.48%	1.48%	1.58%	.61%	.66%	.26%

Exhibit C
Property Catastrophe Aggregate Excess of Loss
Participation Schedule

Reinsurer	Participation
American Agricultural Insurance Company	3.0%
Argo Re Limited	5.00
Davinci Reinsurance Limited	4.00
Everest Reinsurance Company	12.50
Hamilton Re, LTD	2.50
Hiscox Insurance Company (Bermuda) Limited	5.00
Montpelier Reinsurance LTD	20.00
Montpelier Reinsurance LTD (Blue Water Re Business)	10.00
Renaissance Reinsurance LTD	6.00
R+V Versicherung AG	17.50
Swiss Reinsurance America Corporation	10.00
London: Various Lloyd's Underwriters	4.50
Total	100.00%

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, 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.

Partners Mutual Insurance Company
Assets
As of December 31, 2014

	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	$21,806,191	$	$21,806,191
Stocks:			
Common stocks	77,379		77,379
Cash, cash equivalents, and short-term investments	4,332,618		4,332,618
Investment income due and accrued	189,277		189,277
Premiums and considerations:			
Uncollected premiums and agents' balances in course of collection	2,916,468	5,222	2,911,246
Deferred premiums, agents' balances, and installments booked but deferred and not yet due	3,198,324		3,198,324
Accrued retrospective premiums			
Reinsurance:			
Amounts recoverable from reinsurers	6,318,533		6,318,533
Funds held by or deposited with reinsured companies	119,937		119,937
Current federal and foreign income tax recoverable and interest thereon	5,522		5,522
Net deferred tax asset	3,543,667	2,784,222	759,445
Guaranty funds receivable or on deposit	22,674		22,674
Electronic data processing equipment and software	117,421		117,421
Furniture and equipment, including health care delivery assets	16,767	16,767	
Receivable from parent, subsidiaries, and affiliates	473,385		473,385
Write-ins for other than invested assets:			
Miscellaneous receivables	1,027	500	527
Prepaid expenses	49,758	49,758	
Cash surrender value of life insurance	11,240		11,240
Salvage and subrogation recoverable	(153)		(153)
Equities and deposits pooled	18,902		18,902
Total Assets	$43,218,937	$2,856,469	$40,362,468

Partners Mutual Insurance Company
Liabilities, Surplus, and Other Funds
As of December 31, 2014

Losses		$10,417,799
Reinsurance payable on paid loss and loss adjustment expenses		875,979
Loss adjustment expenses		2,871,054
Commissions payable, contingent commissions, and other similar charges		340,701
Other expenses (excluding taxes, licenses, and fees)		479,570
Taxes, licenses, and fees (excluding federal and foreign income taxes)		121,657
Unearned premiums		5,968,662
Dividends declared and unpaid:		
Stockholders		
Policyholders		1,756
Ceded reinsurance premiums payable (net of ceding commissions)		6,401,277
Funds held by company under reinsurance treaties		591
Amounts withheld or retained by company for account of others		350,972
Remittances and items not allocated		76,278
Drafts outstanding		247,708
Write-ins for liabilities:		
Miscellaneous payables		2,131
Additional minimum pension liability		3,327,195
Advance cash direct bill		108,899
Retrospective reinsurance liability		149,219
Retrospective premiums		3,629
Total liabilities		31,745,077
Write-ins for other than special surplus funds:		
Guaranty funds	$1,000,000	
Gross paid in and contributed surplus		
Unassigned funds (surplus)	7,617,391	
Surplus as regards policyholders		8,617,391
Total Liabilities and Surplus		$40,362,468

Partners Mutual Insurance Company
Summary of Operations
For the Year 2014

Underwriting Income		
Premiums earned		$13,063,622
Deductions:		
Losses incurred	$7,221,227	
Loss adjustment expenses incurred	1,244,152	
Other underwriting expenses incurred	4,438,912	
Total underwriting deductions		12,904,291
Net underwriting gain (loss)		159,331
Investment Income		
Net investment income earned	397,111	
Net realized capital gains (losses)	1	
Net investment gain (loss)		397,112
Other Income		
Net gain (loss) from agents' or premium balances charged off	(25,234)	
Finance and service charges not included in premiums	184,796	
Write-ins for miscellaneous income:		
Miscellaneous income	(265,532)	
Total other income		(105,970)
Net income (loss) before dividends to policyholders and before federal and foreign income taxes		450,473
Dividends to policyholders		92,262
Net income (loss) after dividends to policyholders but before federal and foreign income taxes		358,211
Federal and foreign income taxes incurred		1,102
Net Income (Loss)		$ 357,109

Partners Mutual Insurance Company
Cash Flow
For the Year 2014

Premiums collected net of reinsurance			$13,669,543
Net investment income			828,293
Miscellaneous income			136,038
Total			14,633,874
Benefit- and loss-related payments		$11,144,965	
Commissions, expenses paid, and aggregate write-ins for deductions		4,445,011	
Dividends paid to policyholders		92,319	
Total deductions			15,682,295
Net cash from operations			(1,048,421)
Proceeds from investments sold, matured, or repaid:			
Bonds	$5,903,807		
Stocks	335,610		
Total investment proceeds		6,239,417	
Cost of investments acquired (long-term only):			
Bonds	2,506,680		
Total investments acquired		2,506,680	
Net cash from investments			3,732,737
Other cash provided (applied)		921,480	
Net cash from financing and miscellaneous sources			921,480
Reconciliation:			
Net change in cash, cash equivalents, and short-term investments			3,605,796
Cash, cash equivalents, and short-term investments:			
Beginning of year			726,822
End of Year			$ 4,332,618

Partners Mutual Insurance Company
Compulsory and Security Surplus Calculation
December 31, 2014

Assets		$40,362,468
Less liabilities		32,341,025
Adjusted surplus		8,021,443
Annual premium:		
Lines other than accident and health	$13,233,726	
Factor	20%	
Compulsory surplus (subject to a minimum of $2 million)		2,646,745
Compulsory Surplus Excess (or Deficit)		$ 5,374,698
Adjusted surplus (from above)		$ 8,021,443
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%)		3,705,443
Security Surplus Excess (or Deficit)		$ 4,316,000

Partners Mutual Insurance Company
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	$9,018,315	$7,931,944	$7,517,502	$11,323,736	$13,067,728
Net income	357,109	289,121	1,476,989	(2,459,347)	(1,960,137)
Change in net unrealized capital gains/losses	14,292		161,565	(7,518)	61,443
Change in net deferred income tax	86,935	(300,288)	(62,069)	1,528,932	290,424
Change in nonadmitted assets	26,678	439,952	69,144	(1,892,267)	(404,842)
Cumulative effect of changes in accounting principles				103,000	
Write-ins for gains and (losses) in surplus:					
Change in defined benefit plan additional minimum liability	(885,938)	657,586	(1,231,188)	(591,417)	(218,497)
Change in surplus-application of SSAP 10R				(487,617)	487,617
Surplus, End of Year	$8,617,391	$9,018,315	$7,931,944	$ 7,517,502	$11,323,736

Partners Mutual Insurance Company
Insurance Regulatory Information System
For the Five-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	2012	2011	2010
#1	Gross Premium to Surplus	496.0%	436.0%	510.0%	407.0%	343.0%
#2	Net Premium to Surplus	155.0	143.0	88.0	347.0*	307.0*
#3	Change in Net Premiums Written	3.0	85.0*	-73.0*	-25.0	7.0
#4	Surplus Aid to Surplus	0.0	0.0	1.0	0.0	0.0
#5	Two-Year Overall Operating Ratio	97.0	97.0	111.0*	111.0*	105.0*
#6	Investment Yield	1.5*	1.6*	1.7*	1.8*	2.9*
#7	Gross Change in Surplus	-4.0	14.0	6.0	-34.0*	-13.0*
#8	Change in Adjusted Surplus	-4.0	14.0	6.0	-34.0*	-13.0*
#9	Liabilities to Liquid Assets	108.0*	101.0*	106.0*	82.0	78.0
#10	Agents' Balances to Surplus	34.0	32.0	34.0	16.0	13.0
#11	One-Year Reserve Development to Surplus	-4.4	0.8	10.0	9.6	5.2
#12	Two-Year Reserve Development to Surplus	-4.0	11.3	3.6	8.2	2.4
#13	Estimated Current Reserve Deficiency to Surplus	11.0	-30.0	-101.0	-8.1	-2.0

Ratio No. 2 shows the ratio of net premiums written to surplus. A ratio of 300% or higher is considered out of range. The exceptional results in 2010 and 2011 were due to decreases in surplus from consistent underwriting losses and a return of unearned premium reserves to premiums earned, resulting from changes to reinsurance treaties.

Ratio No. 3 measures material increases or decreases in net premiums written. The unusual results in 2012 and 2013 can be explained by drastic changes to premiums due to PMIC joining the reinsurance pool with PNMCIC in the beginning of 2012. After joining the pool, PMIC ceded 100% of its direct, assumed and ceded business to the pool and assumed back 2% of the combined pool of premiums, losses, LAE, and underwriting expenses.

Ratio No. 5 measures the company's profitability over the previous two-year period. The exceptional results in 2010, 2011, and 2012 were primarily due to extreme underwriting losses in 2010 and 2011, which had an effect on the ratio for all three years.

The Investment Yield Ratio (IRIS ratio No. 6) measures the amount of the company's net investment income as a percentage of the average amount of cash and invested assets and was considered exceptional in all years under examination. The exceptional ratios are primarily a result of low returns on the company's bond portfolio and other invested asset holdings. The company's investment strategy concentrates on investing primarily in bonds, which have had a comparatively low yield.

Ratio No. 7, Gross Change in Surplus, was considered exceptional in 2010 and 2011. The negative changes to surplus of 13% and 34%, respectively, were primarily due to poor underwriting results in both years. The losses were attributable in part to catastrophic storms that hit Wisconsin. Also affecting the decrease in the company's surplus in 2011 was an increase in nonadmitted assets of $1,892,267 related to net deferred tax assets, which was partially offset by a change in net deferred income tax of $1,528,932. Further losses to surplus were the result of pension plan liabilities and changes in accounting for pensions.

Ratio No. 8, Net Change in Adjusted Surplus, was also exceptional in both 2010 and 2011 for the same reasons as Ratio No. 7.

Ratio No. 9, Liabilities to Liquid Assets, had exceptional results in 2012, 2013, and 2014. Paying for underwriting losses in 2010 and 2011 and then paying for the initial costs of the reinsurance pool with PNMCIC had reduced liquid investment amounts. The ratio is also affected by a timing issue with reinsurance pooled results, where the company has year-end reinsurance premium payables as liabilities, but reinsurance recoverables are not considered as liquid assets.

Growth of Partners Mutual Insurance Company

Year	Admitted Assets	Liabilities	Surplus as Regards Policyholders	Net Income
2014	$40,362,468	$31,745,077	$ 8,617,391	$ 357,109
2013	39,202,072	30,183,757	9,018,315	289,121
2012	36,697,935	28,765,991	7,931,944	1,476,989
2011	34,267,364	26,749,863	7,517,502	(2,459,347)
2010	43,318,568	31,994,831	11,323,736	(1,960,137)
2009	41,835,685	28,767,957	13,067,728	(557,027)

Year	Gross Premium Written	Net Premium Written	Premium Earned	Loss and LAE Ratio	Expense Ratio	Combined Ratio
2014	$42,782,132	$13,325,988	$13,063,622	64.8%	34.1%	98.9%
2013	39,327,418	12,890,716	12,395,154	65.5	33.7	99.2
2012	40,438,981	6,960,952	11,415,212	77.4	20.0	97.4
2011	30,622,247	26,060,319	30,062,100	84.7	34.0	118.7
2010	38,896,271	34,776,453	33,219,876	77.1	32.0	109.1
2009	37,097,185	32,405,811	31,214,317	73.0	32.7	105.7

Partners Mutual Insurance Company reported underwriting and net losses in 2010 and 2011, with the highest net loss of $2,459,347 in 2011. These larger losses were partially due to more severe storms in 2010 and 2011 in Wisconsin, the company's largest territory.

Effective January 1, 2012, PMIC and PNMCIC entered into an affiliation and pooling reinsurance agreement. PMIC currently cedes all of its all premiums, losses, loss adjusting and underwriting expenses to the pool and receives 2% of the pooled business. As a result of large losses from severe storms in Wisconsin in 2010 and 2011, the company's surplus has decreased 42.5% from 2009 to 2011, then increased by 14.6% since the affiliation with PNMCIC. As a result of pooled underwriting efforts over a larger geographic area and more diverse business mix, PMIC had net income the next three years through 2014. The highest gain occurred in 2012 with net income of $1,476,989, due partially to one-time ceding commission received from the pool. The company's loss and LAE ratio has improved since the affiliation, decreasing from its highest value of 84.7% in 2011 to 64.8% in 2014. The combined ratio results also improved since the affiliation, paralleling the loss and LAE ratio.

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, 2014, is accepted.

VII. SUMMARY OF EXAMINATION RESULTS

Compliance with Prior Examination Report Recommendations

There were ten 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. Losses—It is recommended that a full loss and LAE reserve provision for the losses within the aggregate annual deductible be made by the company going forward.

   Action—Compliance.

2. Losses—It is recommended that the company monitor its net of reinsurance loss development in the most recent accident years and make adjustments to its net of reinsurance loss and LAE reserves should the actual loss development be higher than the expected loss development.

   Action—Compliance.

3. Underwriting—It is recommended that the company adhere to its underwriting guidelines and the company's established formal inspection procedure for new and renewal business.

   Action—Compliance.

4. Underwriting—It is recommended that the company establish control procedures to monitor its agents' and underwriters' compliance with the company's underwriting guidelines.

   Action—Compliance.

5. Underwriting—It is recommended that the company establish a process whereby a sample of new and renewal business is re-inspected by persons independent of the risk under consideration.

   Action—Compliance.

6. Agent Licensing—It is recommended that the company timely review and update its internal company information concerning all the company's agent appointments and terminations in accordance with s. 628.11, Wis. Stat.

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

7. Assumed Reinsurance—It is recommended that the company prepare the Annual Statement Schedule F, Part 1, in accordance with the NAIC Annual Statement Instructions – Property and Casualty.

   Action—Compliance.

8. Escheatment—It is recommended that the company adopt procedures to ensure that all checks are properly escheated pursuant to s. 177.17, Wis. Stat.

   Action—Compliance.

9. <u>Claim Reserves</u>—It is recommended that the company estimate and properly report reinsurance recoverable on its quarterly statutory statements.

   <u>Action</u>—Partial compliance; see comments in the “Summary of Current Examination Results.”

10. <u>Disaster Recovery</u>—It is recommended that the company create a detailed plan for its functional units to recover from a disaster and test the critical functional areas annually to ensure that they are executable.

    <u>Action</u>—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.

Books and Records

While reviewing minutes of the meetings of the company's board of directors and board's committees, the examiners requested copies of the meeting minutes for the Investment Committee. The company prepares and keeps notes from Investment Committee meetings, but no actual formal meeting minutes are retained. The examiners further inquired and also learned that no formal meeting minutes are retained for the Salary Committee or the Nomination Committee meetings. Section 611.51 (9), Wis. Stat., requires that each mutual company shall keep correct and complete books and records of account and shall also keep minutes of the proceedings of its policyholders, board of directors and committees having any authority of the board of directors. It is recommended that the company maintain minutes of the proceedings of its policyholders, board of directors and committees having any authority of the board of directors.

Custodial Agreement

During review by examiners, it was noted the custodial agreement between Partners Mutual Insurance Company and Fifth-Third Institutional Services is missing proper safeguarding wording required by NAIC guidelines. The following items were missing from the agreement:

- In the event of a loss of the securities for which the custodian is obligated to indemnify the insurance company, the securities shall be promptly replaced or the value of the securities and the value of any loss of rights or privileges resulting from said loss of securities shall be promptly replaced.
- If the custodial agreement has been terminated or if 100% of the account assets in any one custody account have been withdrawn, the custodian shall provide written notification, within three business days of termination or withdrawal, to the insurer's domiciliary commissioner.
- The custodian shall secure and maintain insurance protection in an adequate amount.

It is recommended that the company amend its safekeeping agreement to contain satisfactory safeguards and controls consistent with the NAIC's Financial Condition Examiners Handbook.

Agent Licensing

During the examination, the examiners compared agents reported on the company's licensed agent list as maintained by the Office of the Commissioner of Insurance (OCI) to a list of agents maintained by the company. The prior examination found that there were multiple discrepancies between these two records due to the company's failure to timely update its records and reappoint agents after the agents' appointments were terminated by OCI. The current examination found that, as a response to the prior examination finding, the company did implement more procedures to track agents' license status. The company added more reviews to perform checks and corrections for situations involving terminating a sub-agent per agent's request, and termination of sub-agent by insurance department action. An additional review was added to year-end procedures to reconcile changes in the agents' license status. However, minor discrepancies, some related to legacy systems and manual processes, were still discovered. It is recommended that the company continue to improve its process to review and update its internal company information concerning all the company's agent appointments and terminations in accordance with s. 628.11, Wis. Stat. As of February 1, 2016, the function of tracking and reconciling agent licensing has been transferred to PMIC's affiliate, PNMCIC, using a new software product to handle agent licensing.

Claims Reserves

During the prior examination it was noted that the company's claim processing system properly reduced the gross claim reserve when payment was made to the claimant. However, the claim processing system did not reduce the reinsurance recoverable netted against claim reserves until payment was received from the reinsurer. The effect was that amounts that should have been reported as reinsurance recoverable (an asset account) continued to be included as an offset to claim reserves (a liability account) in the company's claims system. On its statutory annual statements, the company recorded an adjustment to properly report reinsurance balances in the claims reserve and in the amounts recoverable from reinsurers balance. However, the company did not make a similar adjustment on its quarterly statutory statements. The prior examination recommended that the company estimate and properly report reinsurance recoverable on its quarterly statutory statements.

The current examination determined that a process has been developed by the company to estimate and report reinsurance recoverable on its quarterly statutory statements. Still, after review of reinsurance recoverable balances, the examiners noted issues in the timing of petitioning for recoverables associated with claims. There were several instances where the recoverable was larger than the outstanding case reserve, which would indicate a need for reclassification between reinsurance recoverable on unpaid and reinsurance recoverable on paid claims. This reclassification would not affect the reported amount of surplus. It is suggested that the company continue to improve the process to estimate and properly report reinsurance recoverable on both annual and quarterly statutory statements.

VIII. CONCLUSION

The examination of Partners Mutual Insurance Company resulted in three recommendations, one suggestion, no adjustment to surplus, and no reclassifications. The recommendations pertain to safeguards and controls of custodial agreements, recording proceedings of board of director committee meetings, and agent licensing.

Policyholders' surplus as reported by the company decreased from $13,067,728 at the end of 2009 to $8,617,391 at the end of 2014. The company's admitted assets decreased 3.5% and liabilities increased 10.3% over the same period.

Effective January 1, 2012, Partners Mutual Insurance Company and Pennsylvania National Mutual Casualty Insurance Company entered into an affiliation and pooling reinsurance agreement. Since entering into the agreements, PMIC had net income the next three years through 2014. The company's loss and LAE ratio and combined ratio results have improved since the affiliation.

IX. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 34 - Books and Records—It is recommended that the company maintain minutes of the proceedings of its policyholders, board of directors and committees having any authority of the board of directors.

2. Page 34 - Custodial Agreement—It is recommended that the company amend its safekeeping agreement to contain satisfactory safeguards and controls consistent with the NAIC's Financial Condition Examiners Handbook.

3. Page 35 - Agent Licensing—It is recommended that the company continue to improve its process to review and update its internal company information concerning all the company's agent appointments and terminations in accordance with s. 628.11, Wis. Stat.

4. Page 36 - Claims Reserves—It is suggested that the company continue to improve the process to estimate and properly report reinsurance recoverable on both annual and quarterly statutory statements.

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
Diana Havitz	Insurance Financial Examiner
Dana Tice	Insurance Financial Examiner
John Litweiler	ACL Specialist
David Jensen	IT Specialist
Jerry DeArmond	Reserve Specialist

Respectfully submitted,

James Lindell
Examiner-in-Charge