

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

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# State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

Scott Walker, Governor  
Theodore K. Nickel, Commissioner

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November 10, 2015

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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:

TRANSIT MUTUAL INSURANCE CORPORATION OF WISCONSIN  
Appleton, Wisconsin

and this report is respectfully submitted.

## I. INTRODUCTION

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

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

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

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

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

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

## II. HISTORY AND PLAN OF OPERATION

Transit Mutual Insurance Corporation of Wisconsin was organized in 1985 under ch. 611, Wis. Stat., as an assessable municipal mutual insurer and commenced business on January 1, 1986. The company provides liability, physical damage and uninsured/underinsured motorist insurance to member municipal transit systems in Wisconsin. The company is not authorized to write business in any other state.

The company writes two premium lines—commercial auto liability which represents 89.5% of the total direct premium and auto physical damage with the remaining 10.5%. The company began selling auto physical damage in 2005 and only covers the buses and staff vehicles owned by the policyholders that choose the coverage; no bus barns or passenger shelters are covered.

The policies are written on a calendar-year basis and premium is collected in full each January. In 2014 the policies provided an occurrence limit of \$7,000,000, of which the company retains the first \$2,500,000. Wisconsin has imposed tort caps on claims for damages caused by municipal bodies and their employees while they are working. Claims are limited to the statutory amounts in ss. 345.05 (a \$250,000 cap in motor vehicle accidents) and 893.80 (a \$50,000 cap for other actions), Wis. Stat. The policies are issued directly to the member municipal transit systems; there are no agent's commission expenses. Premium rates for each member system are calculated through a Premium Allocation Formula, which allocates the actuarially determined base premium necessary for all member systems. The current formula contains the following weightings:

- 50% of premium is based on miles operated for liability coverage or fleet value for property coverage;
- 15% is based on frequency of claims compared to the average of the group; and
- 35% is based on the dollar amount of claims compared to the average of the group.

The company also offers the members policyholder dividends which allow them to participate in the profitability of the company through the refund of excess premiums related to prior policy years. A subaccount exists for each member, which reflects that member's share of the total excess premiums (surplus) for each line of business for a minimum of the previous

five-year period. The subaccounts are adjusted annually to reflect each member's share of the development of open accident years, refunds (usually as policyholder dividends), and current year results. Funds in the subaccounts become available for refund only after all losses in the relevant years have been closed for at least a year. Members can also recover funds from their subaccount upon withdrawal from the company; however, several restrictions and penalties exist related to a minimum three-year membership period and proper notice of withdrawal. The dividend payment will be the lesser of 20% of the current year premium or 90% of the current year net income on the line of coverage. If a member does not have sufficient surplus available, a partial dividend may be paid, or no dividend may be paid if no surplus funds are available.

There is a separate Premium Allocation Formula for miles operated outside the state of Wisconsin for the La Crosse transit system, which adjusts for the different claim limitations in Minnesota. Also, this premium is not eligible for the declared policyholder dividends. The company declared its first dividends for its property damage line of business in 2014.

The company implemented a new surplus management policy in 2014. The surplus will be managed with a flex layer initially set between \$6.1 million and \$8.5 million, based on the actuary's analysis of the surplus and claims history and his estimate of the minimum surplus required to keep the company solvent. Annually, some portion of surplus will be returned to members to reduce the surplus to the mid-point of the flex layer in approximately ten years. The return was determined to be 10% of the primary premium upon the inception of the program in 2015, excluding premium for miles operated outside of the state of Wisconsin. In each odd-numbered year, the actuary will conduct a dynamic financial analysis and advise the board as to the operation of the flex layer and return of surplus program. The return is drawn from the same surplus account as the members' dividends and is subject to the same restrictions if the member does not have sufficient surplus available.

As a service to its insureds and as a method of loss control, the company provides a number of safety programs, including safety reviews and incentives. Examples of these programs include:

1. Ride Checks, which involve an unannounced ride-along audit of safety procedures and driving habits.

2. The Driving Incentive Program, where the transit systems with the best safety records over the past year, one from each of four size divisions, receive cash awards.
3. Development of safety videos using local transit equipment and staff. The most recently developed video included fire response information developed in conjunction with firefighters who were using an old bus for firefighting practice.
4. A safety training scholarship that will pay up to 50% of the cost of safety-related training programs and expenses.

In addition to the programs described, the company maintains a library of training videos, a safety manual, and distributes flyers on safety tips.

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.

<b>Line of Business</b>	<b>Direct Premium</b>	<b>Reinsurance Assumed</b>	<b>Reinsurance Ceded</b>	<b>Net Premium</b>
Commercial auto liability	\$2,587,041	\$0	\$244,077	\$2,342,964
Auto physical damage	<u>302,104</u>	<u>0</u>	<u>112,037</u>	<u>190,067</u>
Total All Lines	<u>\$2,889,145</u>	<u>\$0</u>	<u>\$356,114</u>	<u>\$2,533,031</u>

### III. MANAGEMENT AND CONTROL

#### Board of Directors

The board of directors consists of 18 members. Directors whose terms are expiring are elected annually to serve a three-year term. The initial terms of the newly elected directors are staggered to achieve division of the board into three classes. Officers are elected to three-year terms at the board's annual meeting. The board members currently receive no compensation for serving on the board.

Currently the board of directors consists of the following persons:

<b>Name and Residence</b>	<b>Principal Occupation</b>	<b>Term Expires</b>
Deborah Wetter Appleton, WI	General Manager Valley Transit	2015
Thomas L. Waby Ashland, WI	Transit Manager Bay Area Rural Transit Commission	2015
James Thompson Beloit, WI	Transit Supervisor Beloit Transit System	2016
Dale Peters Eau Claire, WI	Director of Human Resources City of Eau Claire	2017
Lynn Gilles Fond du Lac, WI	Transit Manager Fond du Lac Area Transit	2017
Patricia Kiewiz Green Bay, WI	Transit Director Green Bay Metro	2016
David Kipp Janesville, WI	Operations Supervisor Janesville Transit	2017
Ronald Iwen Kenosha, WI	Transportation Director Kenosha Transit	2016
Jim Krueger La Crosse, WI	Transit Operations La Crosse Municipal Transit Utility	2015
Ann Gullickson Madison, WI	Transit Service Manager Madison Metro	2017
Richard Grenfell Merrill, WI	Transit Administrator Merrill Transit System	2015
Karen Melasecca Hayward, WI	Transit Director Namekagon Transit	2016
Derek Muench Sheboygan, WI	Director of Transit & Parking Shoreline Metro	2017

<b>Name and Residence</b>	<b>Principal Occupation</b>	<b>Term Expires</b>
Corey Ladick Stevens Point, WI	Comptroller/Treasurer City of Stevens Point	2017
Brian Engelking Waukesha, WI	Transit Manager Waukesha Metro Transit	2015
Greg Suebert Wausau, WI	Transit Director Metro Ride	2016

The board of directors has two open positions for members from the cities of Manitowoc and Racine.

### **Officers of the Company**

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

<b>Name</b>	<b>Office</b>	<b>2014 Compensation</b>
Greg Suebert	President	\$ 0
Deborah Wetter	Vice President	0
Anthony Scherer	Secretary and Treasurer	0
Edith Merila	Executive Director/General Counsel	120,000

Officers of the board are not paid by the company. Ms. Merila's 2014 compensation does not include the company's contribution for a 401(k) plan. See "Summary of Examination Findings" for further details.

### **Committees of the Board**

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

#### **Executive Committee**

Greg Seubert, Chair  
Brian Engelking  
Patricia Kiewiz  
Derek Muench  
Deborah Wetter

#### **Underwriting Committee**

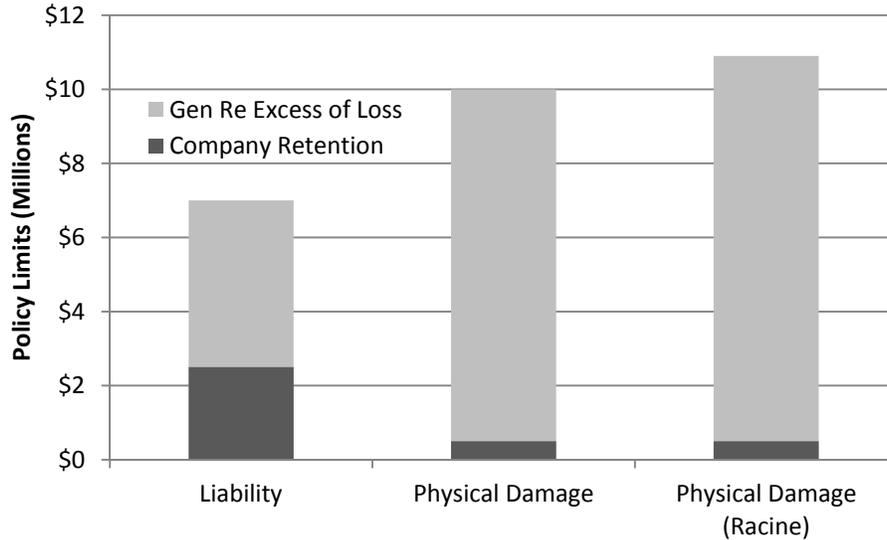
Ann Gullickson, Chair  
Michael Ciaramita  
Ronald Iwen  
Albert Stanek

The Executive Committee consists of board members, including corporate officers, and is responsible for any denial of coverage decisions. The Underwriting Committee consists of board members and makes recommendations to the board regarding premium surcharges and continued membership when it feels action is necessary to address a loss history trend. The

company has a number of advisory committees—Bylaws, Investment, Premium and Safety Advisory—that include both employees of its policyholders and employees of the company.

#### IV. REINSURANCE

The company's reinsurance portfolio and strategy are 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.



#### Ceding Contracts

The company has one reinsurance treaty in force at the time of the examination. It is summarized below. The contract contains proper insolvency provisions.

#### Agreement with General Reinsurance Corporation

Type:	Excess of Loss Reinsurance
Reinsurer:	General Reinsurance Corporation
Scope:	All business written by the company
Retention:	Liability – \$2,500,000 per occurrence Physical Damage – \$500,000 per occurrence
Coverage:	Liability – \$4,500,000 per occurrence Physical Damage – \$9,500,000 per occurrence Physical Damage (Racine Only) – \$10,349,050 per occurrence
Premium:	Liability – \$196,857, based on a rate of \$270.78 per power unit estimated at 727 units Physical Damage – \$104,472, based on an estimated total insurable value of \$76,396,389 at a rate of 0.13675 per \$100 estimated table insurable value Physical Damage (Racine Only) – \$1,230, with respect to an additional layer of \$349,050 excess of \$10,000,000

Effective date: January 1, 2015

Termination: At the beginning of each contract year by either party giving 120 days' notice by registered mail or for cause on 5 days' notice

The company agrees to limit each policy limit to the combination policy limits of its retention and the excess of loss limits of the ceding contract. The additional Racine coverage is due to Racine's vehicle listing exceeding \$10,000,000 in value; the additional amount covers their entire fleet. The company agreed to provide physical damage coverage to Madison beginning in 2016 at a September 2015 Executive Committee meeting. This will most likely result in a similar extension of reinsurance coverage due to Madison's vehicle list exceeding the \$10,000,000 value threshold.

## **V. FINANCIAL DATA**

The following financial statements reflect the financial condition of the company as reported to the Commissioner of Insurance in the December 31, 2014, annual statement.

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

**Transit Mutual Insurance Corporation of Wisconsin  
Assets  
As of December 31, 2014**

	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	\$11,572,034	\$	\$11,572,034
Stocks:			
Common stocks	379,718		379,718
Cash, cash equivalents, and short-term investments	1,711,921		1,711,921
Investment income due and accrued	117,156		117,156
Furniture and equipment, including health care delivery assets	7,263	7,263	
Write-ins for other than invested assets:			
Prepaid items	<u>17,434</u>	<u>17,434</u>	<u>          </u>
Total Assets	<u>\$13,805,526</u>	<u>\$24,697</u>	<u>\$13,780,829</u>

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

Losses		\$ 2,945,399
Loss adjustment expenses		827,176
Other expenses (excluding taxes, licenses, and fees)		160,878
Dividends declared and unpaid:		
Policyholders		503,854
Amounts withheld or retained by company for account of others		<u>2,476</u>
Total liabilities		4,439,783
Gross paid in and contributed surplus	\$ 100,000	
Unassigned funds (surplus)	<u>9,241,046</u>	
Surplus as regards policyholders		<u>9,341,046</u>
Total Liabilities and Surplus		<u>\$13,780,829</u>

**Transit Mutual Insurance Corporation of Wisconsin  
Summary of Operations  
For the Year 2014**

<b>Underwriting Income</b>		
Premiums earned		\$2,533,031
Deductions:		
Losses incurred	\$706,151	
Loss adjustment expenses incurred	93,330	
Other underwriting expenses incurred	<u>293,499</u>	
Total underwriting deductions		<u>1,092,980</u>
Net underwriting gain (loss)		1,440,051
<b>Investment Income</b>		
Net investment income earned	232,557	
Net realized capital gains (losses)	<u>8,944</u>	
Net investment gain (loss)		241,501
Net income (loss) before dividends to policyholders and before federal and foreign income taxes		1,681,552
Dividends to policyholders		<u>503,854</u>
Net Income		<u>\$1,177,698</u>

**Transit Mutual Insurance Corporation of Wisconsin  
Cash Flow  
For the Year 2014**

Premiums collected net of reinsurance		\$2,533,031
Net investment income		<u>339,651</u>
Total		2,872,682
Benefit- and loss-related payments	\$ 606,624	
Commissions, expenses paid, and aggregate write-ins for deductions	755,669	
Dividends paid to policyholders	<u>466,023</u>	
Total deductions		<u>1,828,316</u>
Net cash from operations		1,044,366
Proceeds from investments sold, matured, or repaid:		
Bonds	\$2,389,707	
Stocks	<u>7,672</u>	
Total investment proceeds		2,397,379
Cost of investments acquired (long-term only):		
Bonds	2,401,242	
Stocks	<u>379,838</u>	
Total investments acquired		<u>2,781,080</u>
Net cash from investments		(383,701)
Cash from financing and miscellaneous sources:		
Other cash provided (applied)	<u>(49,335)</u>	
Net cash from financing and miscellaneous sources		<u>(49,335)</u>
<b>Reconciliation:</b>		
Net change in cash, cash equivalents, and short-term investments		\$611,330
Cash, cash equivalents, and short-term investments:		
Beginning of year		<u>1,100,590</u>
End of Year		<u>\$1,711,921</u>

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

Assets		\$13,780,829
Less security surplus of insurance subsidiaries		0
Less liabilities		<u>4,439,783</u>
Adjusted surplus		9,341,046
Annual premium:		
Lines other than accident and health	\$2,029,177	
Factor	<u>20%</u>	
Compulsory surplus (subject to a minimum of \$100,000)		<u>405,835</u>
Compulsory Surplus Excess (or Deficit)		<u>\$ 8,935,211</u>
Adjusted surplus (from above)		\$ 9,341,046
Security surplus: (140% of compulsory surplus, factor reduced 1% for each \$33 million in premium written in excess of \$10 million, with a minimum factor of 110%)		<u>568,169</u>
Security Surplus Excess (or Deficit)		<u>\$ 8,772,877</u>

**Transit Mutual Insurance Corporation of Wisconsin  
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	\$8,209,260	\$7,710,089	\$7,249,362	\$6,769,405	\$6,147,928
Net income	1,177,698	1,181,235	897,105	504,325	625,643
Change in net unrealized capital gains/losses	8,442				
Change in non-admitted assets	2,877	(8,537)	31,408	(11,104)	(4,166)
Write-ins for gains and (losses) in surplus:					
Return of Policyholder Surplus		(467,787)	(467,786)	(13,264)	
Return of Ex-Policyholder Surplus	<u>(57,233)</u>	<u>(205,741)</u>	<u>                    </u>	<u>                    </u>	<u>                    </u>
Surplus, End of Year	<u>\$9,341,044</u>	<u>\$8,209,260</u>	<u>\$7,710,089</u>	<u>\$7,249,362</u>	<u>\$6,769,405</u>

**Transit Mutual Insurance Corporation of Wisconsin  
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.

<b>Ratio</b>	<b>2014</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>	<b>2010</b>
#1 Gross Premium to Surplus	31%	35%	39%	46%	50%
#2 Net Premium to Surplus	27	31	35	41	44
#3 Change in Net Premiums Written	1	(6)	(10)	(2)	5
#4 Surplus Aid to Surplus	0	0	0	0	0
#5 Two-Year Overall Operating Ratio	54	63	77	81	90
#6 Investment Yield	1.8*	1.8*	2.5*	2.8*	3.2
#7 Gross Change in Surplus	14	6	6	7	10
#8 Change in Adjusted Surplus	14	6	6	7	10
#9 Liabilities to Liquid Assets	32	36	39	43	43
#10 Agents' Balances to Surplus	0	0	0	0	0
#11 One-Year Reserve Development to Surplus	(13)	(27)	(17)	(18)	(12)
#12 Two-Year Reserve Development to Surplus	(35)	(39)	(35)	(29)	(33)
#13 Estimated Current Reserve Deficiency to Surplus	(17)	(25)	(24)	(28)	(24)

Ratio No. 6 measures the company's investment yield. The exceptional results in 2011, 2012, 2013 and 2014 were mainly due to the low interest rate environment in recent years. The company's portfolio consists predominantly of high quality fixed income securities. Low investment results are not uncommon or unexpected in the current market. In 2014, the company amended their investment strategy to begin investing in common stock to diversify its investment portfolio and benefit from any appreciation of the securities.

## Growth of Transit Mutual Insurance Corporation of Wisconsin

Year	Admitted Assets	Liabilities	Surplus As Regards Policyholders	Net Income
2014	\$13,780,829	\$4,439,783	\$9,341,046	\$1,177,698
2013	12,880,366	4,671,106	8,209,260	1,181,235
2012	12,592,988	4,882,899	7,710,089	897,105
2011	12,684,956	5,435,594	7,249,362	504,325
2010	11,788,010	5,018,605	6,769,405	625,643
2009	10,801,860	4,653,932	6,147,928	259,844

Year	Gross Premium Written	Net Premium Written	Premium Earned	Loss and LAE Ratio	Expense Ratio	Combined Ratio
2014	\$2,889,145	\$2,533,031	\$2,533,031	31.6%	11.6%	43.2%
2013	2,836,206	2,513,739	2,513,739	13.1	31.1	44.2
2012	2,994,051	2,673,682	2,673,682	36.1	27.9	64.0
2011	3,307,206	2,957,651	2,957,651	51.1	18.6	69.7
2010	3,358,292	3,011,731	3,011,731	49.3	18.3	67.6
2009	3,194,342	2,855,409	2,855,409	51.9	26.1	78.0

The company sets pricing based on actuarial recommendations and provides policyholder dividends to keep surplus at levels that are considered adequate. Dividends are based on anticipated capital needs and available surplus from years that have had all claims closed. Both gross and net premium written have decreased 9.6% and 11.3%, respectively, since 2009 primarily because the company lost one of its members, Oshkosh Transit System, in 2011. Surplus has increased 52% since 2009, primarily due to increased net income. Effective 2015, the company implemented a surplus management policy, where the company returns some surplus to members when the total surplus balance exceeds the minimum surplus of \$6.1 million. Return of surplus will be done in addition to regular policyholders dividends. The company declared \$2,995,019 in policyholder dividends over the five-year examination period. The company reported a \$262,974 return of ex-policyholder surplus during the examination period.

**Reconciliation of Surplus per Examination**

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

## VI. SUMMARY OF EXAMINATION RESULTS

### Compliance with Prior Examination Report Recommendations

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

1. Fidelity Bond Coverage—It is recommended that the company increase its fidelity bond levels to the levels recommended by the NAIC Financial Condition Examiners Handbook.

Action—Compliance.

## **Summary of Current Examination Results**

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

### **Executive Compensation**

The examination reviewed the Wisconsin Report on Executive Compensation filed with the commissioner for year 2014 to verify that it disclosed all required compensation. Pursuant to ss. 601.42 and 611.63 (4), Wis. Stat., such compensation should include all direct and indirect remuneration for services, including retirement and other deferred compensation benefits, paid or accrued each year for the benefit of each director and employee whose compensation exceeds a specified amount. For the insurer of the company's size, the specified amount of compensation is \$100,000.

The company provides a qualified defined contributions retirement plan for its employees. It was discovered that the Report on Executive Compensation did not include contributions made by the company under the defined contribution plan. As a result, compensation for the employees was underreported by approximately \$17,000 in total. It is recommended that the company properly complete the Report on Executive Compensation as required by ss. 601.42 and 611.63 (4), Wis. Stat.

## **VII. CONCLUSION**

The company issues policies directly to its 18 member municipal transit systems. The policies are written on a calendar year basis and premium is collected in full in January. These procedures result in zero balances at year-end for unearned premiums and premiums paid in advance.

The company has complied with the recommendation regarding fidelity bond coverage from the previous examination report. The current examination noted one recommendation relating to executive compensation. There were no adjustments made to policyholders' surplus.

The company has had generally good results during the five-year exam period, with surplus increasing 52% from 2009 despite paying nearly \$3 million in dividends to policyholders. The company has implemented a new surplus management policy in 2014 to return excessive surplus to policyholders and maintain a more consistent level of surplus. The company appears to provide its policyholders with adequate insurance coverage, a favorable premium and valuable safety training.

## VIII. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 20 - Executive Compensation—It is recommended that the company properly complete the Report on Executive Compensation as required by ss. 601.42 and 611.63 (4), Wis. Stat.

## IX. ACKNOWLEDGMENT

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

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

<b>Name</b>	<b>Title</b>
John Pollock	Insurance Financial Examiner
John Litweiler	ACL Specialist
Tom Houston	IT Specialist
Jerry DeArmond	Reserve Specialist

Respectfully submitted,

Diana M. Havitz  
Examiner-in-Charge