Report

of the

Examination of

United Wisconsin Insurance Company

New Berlin, Wisconsin

As of December 31, 2012

TABLE OF CONTENTS

Page

State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

Scott Walker, *Governor*
Theodore K. Nickel, *Commissioner*

Wisconsin.gov

125 South Webster Street • P.O. Box 7873
Madison, Wisconsin 53707-7873
Phone: (608) 266-3585 • Fax: (608) 266-9935
E-Mail: ociinformation@wisconsin.gov
Web Address: oci.wi.gov

June 4, 2014

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:

UNITED WISCONSIN INSURANCE COMPANY
New Berlin, Wisconsin

and this report is respectfully submitted.

I. INTRODUCTION

The previous examination of United Wisconsin Insurance Company (the company or UWIC) was conducted in 2010 as of December 31, 2009. The current examination covered the intervening period ending December 31, 2012, and included a review of such 2013 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 of the company was conducted concurrently with the examination of the Accident Fund Group conducted by the State of Michigan. Representatives of the Michigan Department of Insurance and Financial Services (DIFS) acted in the capacity as the lead state for the coordinated exams. Work performed by the Michigan DIFS was reviewed and relied on where deemed appropriate.

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
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.

Independent Actuary's Review

An independent actuarial firm was engaged under a contract with the Michigan DIFS. The actuary reviewed the adequacy of the company's loss and loss adjustment expense reserves for pooled items in the group. The actuary's results were reported to the lead state examiner-in-charge. As deemed appropriate, reference is made in this report to the actuary's conclusion.

II. HISTORY AND PLAN OF OPERATION

United Wisconsin Insurance Company was incorporated in Wisconsin as a casualty insurer on September 11, 1957, under the name "Health Insurance Corporation." The name was changed to that currently used effective January 1, 1983. UWIC was a directly owned subsidiary of Blue Cross Blue Shield of Wisconsin (BCBSW). In 1983, BCBSW organized a downstream holding company, United Wisconsin Services, Inc. (UWSI), which became the direct owner of all of BCBSW's stock subsidiaries, including UWIC.

On June 14, 1999, BCBSW filed an application with the Office of the Commissioner of Insurance (OCI) to convert from a nonprofit service insurance corporation to a stock corporation. On March 28, 2000, OCI approved the plan of conversion subject to a detailed list of conditions. On March 19, 2001, OCI recognized BCBSW's application as complete and approved the conversion pursuant to its order of March 28, 2000. The conversion was consummated on March 23, 2001, and BCBSW thereby became a stock insurance corporation organized pursuant to ch. 611, Wis. Stat. As part of BCBSW's conversion to a stock insurance company, UWSI changed its name to Cobalt Corporation (Cobalt).

In July 2000 Cobalt contributed all the issued and outstanding shares of UWIC to Compcare Health Services Insurance Company (Compcare). In October 2002 BCBSW received all the outstanding stock of Compcare from Cobalt in satisfaction of a promissory note. Compcare is a Wisconsin-domiciled health maintenance organization.

Effective December 31, 2002, Cobalt contributed United Heartland, Inc. (UHI), to UWIC. UHI sold and administered direct and assumed worker's compensation products as an affiliated managing general agent (MGA). UHI was subsequently dissolved with all of the assets and liabilities being assumed by UWIC. Also effective December 31, 2002, UWIC took 100% ownership of United Heartland Illinois, Inc. (UHIL). UHIL was also an MGA that sold and administered direct and assumed worker's compensation products, owned 50% by UWIC through a joint venture agreement with Health Care Services Corporation (HCSC). The joint venture agreement with HCSC was allowed to expire and UWIC took 100% ownership through the full assumption of a lease obligation of the joint venture. UHIL was subsequently dissolved with all of the assets and liabilities being assumed by UWIC. These transactions had no income statement impact on UWIC and combined resulted in an increase to statutory surplus of approximately $4 million.

Cobalt was merged with and into Crossroads Acquisition Corporation (Crossroads), effective September 24, 2003, as a result of the acquisition of Cobalt by WellPoint Health Networks, Inc. (WHN), a publicly traded managed health care company domiciled in the state of Delaware. On November 30, 2004, WHN and Anthem, Inc., a publicly traded managed care company domiciled in the state of Indiana, completed their merger. WHN merged with and into Anthem Holding Corp., a directly and wholly owned subsidiary of Anthem, Inc., with Anthem Holding Corp. as the surviving entity in the merger. In connection with the merger, Anthem, Inc., amended its articles of incorporation to change its name to WellPoint, Inc. (WellPoint). WellPoint is a publicly traded company, whose shares are traded on the New York Stock Exchange under the symbol WLP.

At that time, the company underwrote worker's compensation as well as group disability, dental, managed care health and group health business. Effective October 1, 2004, UWIC entered into assumption reinsurance agreements transferring a number of accident and health policies to, at the time, an affiliated entity, UNICARE Life & Health Insurance Company (UNICARE). Prior to October 1, 2004, these policies were 100% ceded to, at the time, affiliated entities, BCBSW and United Heartland Life Insurance Company (UHLIC), under quota share reinsurance agreements. Effective November 1, 2004, UWIC entered into an assumption reinsurance agreement transferring its behavioral health policies to an unaffiliated insurance company, Abri Health Plan, Inc. Prior to November 1, 2004, these policies were 100% ceded to UHLIC under a quota share reinsurance agreement. Effective January 1, 2005, UWIC entered into an assumption reinsurance agreement transferring its final accident and health policy to UNICARE. Prior to January 1, 2005, this product was 100% ceded to BCBSW under a quota share reinsurance agreement.

Effective December 28, 2005, Accident Fund Insurance Company of America (AFICA) acquired direct control of UWIC through the acquisition, from Compcare, of all the issued and outstanding shares of common stock of UWIC. AFICA is a property and casualty insurance company domiciled in Michigan and a wholly owned subsidiary of Blue Cross Blue Shield of Michigan (BCBSM). BCBSM was incorporated as a nonprofit insurance corporation domiciled in Michigan under the provision of Public Act 350 of 1980 in the state of Michigan. PA 350 provides for the regulations around the incorporation of nonprofit health care companies. It identifies that each corporation subject to the act is declared a charitable and benevolent institution whose funds and property shall be exempt from taxation by the state of Michigan and any political subdivision of the state. BCBSM is currently in process of converting to a nonprofit mutual insurance company under recent state legislative initiatives. As such, BCBSM will begin to pay taxes while continuing to maintain its social mission programs.

In 2009 Blue Cross Blue Shield of Michigan organized Accident Fund Holdings, Inc. (AFHI), as a wholly-owned subsidiary of BCBSM. BCBSM exchanged its shares of AFICA for shares of AFHI, and AFICA became a wholly owned subsidiary of AFHI. AFICA was the sole shareholder of United Wisconsin Insurance Company, as well as Accident Fund General Insurance Company (AFGIC), Accident Fund National Insurance Company (AFNIC), Third Coast Insurance Company and CWI Holdings, Inc., which in turn owned CompWest Insurance Company, as of December 31, 2012. AFICA became the immediate parent of CompWest Insurance Company as a result of the merger of CWI Holdings with and into AFICA on July 1, 2013.

In 2012, the company wrote direct premium in the following states:

Wisconsin	$ 80,792,769	43.3%
Illinois	25,842,432	13.9
Iowa	19,737,244	10.6
Kansas	8,922,019	4.8
Indiana	8,494,753	4.6
Nebraska	8,381,384	4.5
North Carolina	6,548,092	3.5
Tennessee	6,293,072	3.4
Minnesota	6,244,162	3.3
South Carolina	4,804,365	2.6
All others	10,491,484	5.5
Total	$186,551,776	100.0%

The company is licensed in the District of Columbia and all states except Hawaii.

The major product marketed by the company is worker's compensation for mid-size to large employers, emphasizing accounts in the fields of medical facilities, manufacturing, not-for profit and social services and transportation. The products are marketed through independent agents.

The following table is a summary of the net insurance premiums written by the company in 2012. 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
Worker's compensation	$186,369,982	$62,774,554	$195,940,172	$53,204,364
Excess worker's compensation	181,794	260,511	181,794	260,511
Total All Lines	$186,551,776	$63,035,065	$196,121,966	$53,464,875

III. MANAGEMENT AND CONTROL

Board of Directors

The board of directors consists of four members. Four 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 no compensation for serving on the board beyond their regular salaries as employees of the Accident Fund Group.

Currently the board of directors consists of the following persons:

Name and Residence	Principal Occupation	Term Expires
Elizabeth R. Haar Howell, Michigan	President and CEO Accident Fund Holdings, Inc.	2014
Stephan J. Cooper Pewaukee, Wisconsin	President United Wisconsin Insurance Company	2014
Anthony G. Phillips Howell, Michigan	Chief Risk Officer Accident Fund Holdings, Inc.	2014
Frank H. Freund East Lansing, Michigan	Chief Financial Officer Accident Fund Holdings, Inc.	2014

Officers of the Company

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

Name	Office	2012 Compensation
Stephan J. Cooper	President	$546,844
Steven E. Reynolds	Secretary	364,133
Frank H. Freund	Treasurer	532,832

The above amounts represent total gross compensation paid to each individual by or on behalf of all companies which are part of the Accident Fund Group as reported on the 2012 Report on Executive Compensation.

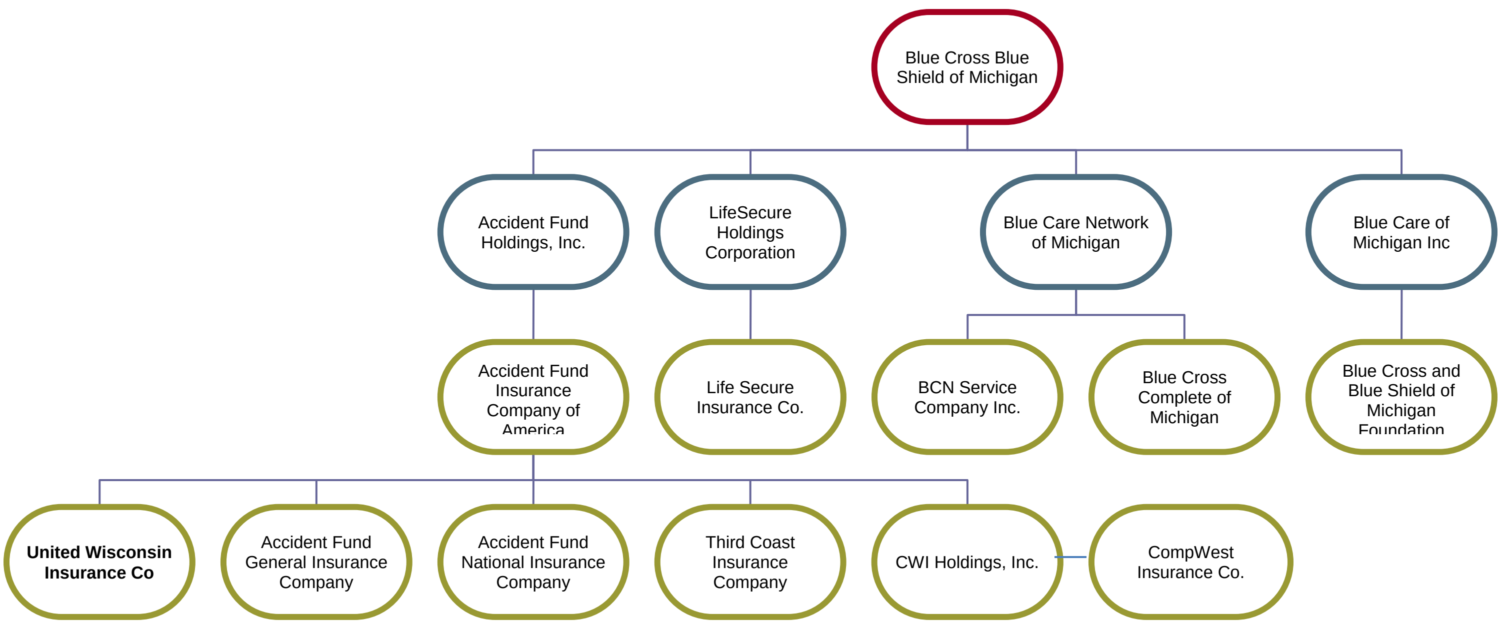
Committees of the Board

The company's bylaws allow for the formation of certain committees by the board of directors. The company did not have any board committees at the time of the examination.

IV. AFFILIATED COMPANIES

United Wisconsin 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, 2012



Blue Cross Blue Shield of Michigan

Blue Cross Blue Shield of Michigan, the ultimate parent of this holding company system, is incorporated as a nonprofit insurance corporation domiciled in Michigan. The company provides hospital, medical and other health benefits under contracts with subscribers.

As of December 31, 2012, BCBSM's audited statutory-basis financial statements reported assets of $7,469,445,992, liabilities of $4,408,848,725, and capital and surplus of $3,060,597,267. Operations for 2012 produced net loss of $2,549,430.

Accident Fund Insurance Company of America

Accident Fund Insurance Company of America, the direct parent of UWIC, was incorporated on November 10, 1994, as a property and casualty insurance company under the Michigan Insurance Code. AFICA was licensed in Wisconsin on August 23, 2000. The company provides worker's compensation insurance coverage primarily for companies located in Michigan and several other Midwestern and Southern states. The company was authorized to sell property and liability insurance in 50 states and the District of Columbia as of December 31, 2012. AFICA is the lead company for the group's pool.

As of December 31, 2012, AFICA's audited statutory-basis financial statements reported assets of $2,300,315,521, liabilities of $1,666,711,440, and capital and surplus of $633,604,081. Operations for 2012 produced net income of $37,534,601.

Accident Fund General Insurance Company

Accident Fund General Insurance Company, which participates in the group's pool, was incorporated on June 20, 2005, as a property and casualty insurance company under the Michigan Insurance Code. The company was authorized to sell property and liability insurance in 48 states and the District of Columbia as of December 31, 2012.

As of December 31, 2012, Accident Fund General Insurance Company's statutory-basis financial statements reported assets of $181,997,737, liabilities of $144,062,426, and capital and surplus of $37,935,311. Operations for 2012 produced net income of $3,968,555.

Accident Fund National Insurance Company

Accident Fund National Insurance Company, which participates in the group's pool, was incorporated on June 20, 2005, as a property and casualty insurance company under Michigan Insurance Code. The company was authorized to sell property and liability insurance in 48 states and the District of Columbia as of December 31, 2012.

As of December 31, 2012, Accident Fund National Insurance Company's statutory-basis financial statements reported assets of $202,142,844, liabilities of $151,851,653, and capital and surplus of $50,291,191. Operations for 2012 produced net income of $1,338,543.

Third Coast Insurance Company

On August 31, 2007, AFICA acquired 100% of the outstanding shares of Third Coast Insurance Company, which was an inactive Illinois property-casualty insurance company.

As of December 31, 2012, Third Coast Insurance Company's statutory-basis financial statements reported assets of $17,081,475, liabilities of $341,765, and capital and surplus of $16,739,710. Operations for 2012 produced net income of $800,404.

CompWest Insurance Company

On November 20, 2007, AFICA acquired 100% of the outstanding shares of CWI Holdings, Inc., a Delaware domiciled insurance holding company, which in turn owned 100% of CompWest Insurance Company. CWI Holdings, Inc., merged with and into AFICA on July 1, 2013, and AFICA became the immediate parent of CompWest Insurance Company, a California-domiciled insurance company, which participates in the group’s pool.

As of December 31, 2012, CompWest Insurance Company's statutory-basis financial statements reported assets of $313,581,448, liabilities of $207,759,928, and capital and surplus of $105,821,520. Operations for 2012 produced net income of $3,974,095.

Agreements with Affiliates

The company has entered into reinsurance (described in the following section), service, and consolidated income tax agreements with affiliates. Some of the most significant contracts are described below.

UWIC has entered into an Inter-Company Services Agreement with BCBSM, AFICA and subsidiaries of AFICA to permit each party to utilize the specialized skills, services, purchasing power, and other capabilities of each other party. The Inter-Company Services Agreement provides for the following:

- Investment Management Services – each group member appoints BCBSM to act as its investment manager for all monies, stocks, bonds, securities and other invested assets.
- Administrative & Facilities Services – group members may provide when and as needed administrative support services and facilities to other group members pursuant to the ultimate direction, approval, control and supervision of the service recipient and its board of directors.

The agreement provides for monthly settlement for the reasonable value of services, facilities, supplies and other resources as determined in accordance with time allocations, expense sharing and/or other appropriate methods of measurement based on actual cost of services performed.

UWIC has entered into a Tax Sharing Agreement with AFICA. Under this agreement, UWIC is included in the consolidated federal income tax return of BCBSM. Income taxes allocated to UWIC are to be equivalent to the liability that would have been incurred on a separate tax liability return basis. Payments to or from AFICA, as the case may be, are to be made on or before each of the quarterly due dates for AFICA to make payment of estimates of its consolidated federal income taxes for such taxable year. Group members settle annually for any differences between the consolidated return and separate tax liability.

V. REINSURANCE

The company's reinsurance portfolio and strategy is described below. A summary of the significant reinsurance contracts in force at the time of the examination follows. The contracts contained proper insolvency provisions.

Affiliated Pooling Contract

All affiliated participants cede 100% of premium written to AFICA in accordance with an Intercompany Pooling Agreement effective January 1, 2006, as amended effective December 31, 2012. All premiums written by and ceded to AFICA are pooled and assumed by the affiliated participants based on the following respective percentages:

Company	Percentage
Accident Fund Insurance Company of America	76.5%
United Wisconsin Insurance Company	9.5
Accident Fund National Insurance Company	6.0
Accident Fund General Insurance Company	4.0
CompWest Insurance Company	4.0

Therefore, UWIC cedes 100% of its direct premium to the Intercompany Pool and assumes back 9.5% of the total pooled premiums and losses. The pooling contract includes an insolvency provision. The contract may be terminated by the consent of all participants upon 12-month advance written notice at the close of any quarter.

Excess of Loss Reinsurance Contracts

AFICA has obtained excess reinsurance coverage for the benefit of UWIC and the other affiliated participants in the pool. Coverage is separated into three contracts. The first coverage consists of a $400,000 excess of $100,000 reinsurance contract with an aggregate limit of $233 million. The second coverage consists of a working layer excess of loss contract that provides for occurrences exceeding $1.5 million, in two layers of $3.5 million excess of $1.5 million (70% subscribed, with total recoverables capped at about $42 million) and $5.0 million excess of $5 million with a limitation of $10 million per occurrence and a $20 million cap. The third coverage consists of a catastrophe excess of loss contract providing coverage in three layers, which includes $10 million excess of $10 million, $30 million excess of $20 million and $50 million excess of $50 million.

A summary of the above excess of loss reinsurance contract terms, reinsurers, and premium requirements follows.

Worker's Compensation and Employers Liability Excess of Loss Reinsurance Contract

Effective date:	January 1, 2012
Reinsurer:	National Indemnity
Coverage:	\$400,000 excess of \$100,000
Aggregate limit:	\$233,000,000
Premium:	Premium is calculated at 22% of Net Earned Premium income
	Subject to an annual minimum premium of \$161,755,000
	Annual deposit premium of \$173,000,000

Worker's Compensation Excess of Loss Reinsurance Contract

Effective date:	January 1, 2012
Retention:	Layer 1: 30% Layer 2: 0%
First layer:	Premium calculated at 0.5% of the Gross Net Earned Premium income
	Annual deposit premium of \$4,041,313
Second layer:	Premium calculated at 0.26% of the Gross Net Earned Premium income
	Subject to an annual minimum premium of \$1,681,186
	Annual deposit premium of \$2,101,483

Layer 1 \$3,500,000 XS \$1,500,000	**Reinsurer**	**Accident Fund Final Lines**
	American Safety Reinsurance Ltd.	3.5%
	Hannover Rueckversicherung AG	10.0
	Safety National Casualty Corporation	30.5
	Lloyd's Underwriters	26.0
	Total	**70.0%**

Layer 2 \$5,000,000 XS \$5,000,000	**Reinsurer**	**Accident Fund Final Lines**
	Hannover Rueckversicherung AG	20.0%
	Amlin Bermuda branch of Amlin AG	5.0
	Lloyd's Underwriters	75.0
	Total	**100.0%**

Worker's Compensation Catastrophe Excess of Loss Reinsurance Contract

Effective date:	January 1, 2012
First layer:	Premium is calculated at 0.127% of the Gross Net Earned Premium income
	Subject to an annual minimum premium of $800,000
	Annual deposit premium of $1,000,000
Second layer:	Premium is calculated at 0.1676% of the Gross Net Earned Premium income
	Subject to an annual minimum premium of $1,056,000
	Annual deposit premium of $1,320,000
Third layer:	Premium is calculated at 0.1429% of the Gross Net Earned Premium income
	Subject to an annual minimum premium of $900,000
	Annual deposit premium of $1,125,000
Reinsurers:	A summary of reinsurers and applicable percentage of coverage by layer includes the following:

Reinsurer	First Layer %	Second Layer %	Third Layer %	2012 Projected Dollars
Allied World Assurance Co. Limited	0.0	0.0	5.0	$ 2,500,000
Alterra Bermuda Limited	3.5	2.5	2.5	2,350,000
Arch Reinsurance Company	0.0	3.0	3.0	2,400,000
Aspen Insurance UK Limited	5.0	10.0	10.0	8,500,000
Axis Specialty Limited	9.0	8.0	3.0	4,800,000
Endurance Specialty Insurance Ltd.	12.5	10.0	12.0	10,250,000
Hannover Ruckversicherung Ag	5.0	5.0	0.0	2,000,000
Lloyd's Underwriter Syndicate #2003	0.0	5.0	7.5	5,250,000
Lloyd's Syndicate #5151 MRE	3.5	2.5	2.5	2,350,000
Lloyd's Syndicate #435	4.5	4.5	0.0	1,800,000
Lloyd's Syndicate #2987	7.5	8.5	9.0	7,800,000
Lloyd's Syndicate #4472	5.0	5.0	5.0	4,500,000
Lloyd's Syndicate #780	2.0	2.0	2.5	2,050,000
Lloyd's Syndicate #566	3.0	0.0	0.0	300,000
Lloyd's Syndicate #609	2.0	2.5	2.5	2,200,000
Lloyd's Syndicate #2001	0.0	0.0	4.5	2,250,000
Munich Reinsurance America, Inc.	8.0	8.0	8.0	7,200,000
Odyssey Reinsurance Company	9.0	5.0	4.5	4,650,000
Safety National Casualty Corporation	7.5	7.5	7.5	6,750,000
Tokio Millennium Reinsurance Limited	13.0	8.0	8.0	7,700,000
Validus Reinsurance, Ltd.	0.0	3.0	3.0	2,400,000
Totals	100.0%	100.0%	100.0%	$90,000,000

Residual Market Worker's Compensation Reinsurance Facility Contract

The company participates in a multistate worker's compensation pool. UWIC is required to specifically participate in and assume a pro-rata share of business from the Michigan Workers' Compensation Placement Facility Pool, based on the company's share of the total Michigan voluntary worker's compensation market. Reinsurance contract terms include the following:

Pools:	Michigan Workers' Compensation Placement Facility Massachusetts Workers' Compensation Assigned Risk Pool New Mexico Workers' Compensation Assigned Risk Pool National Workers' Compensation Reinsurance Pool	
Reassured:	Accident Fund Group	
Administered by:	Towers Watson	
Retention:	Cedes 100% of the premium and 100% of the losses	
	Subject to loss ratio capped at 40% above expected loss ratio	
Commission:	Commission rates are determined by Jurisdiction and Expected Loss Ratio	
Profit sharing:	Reinsurer shall pay the reassured a profit sharing commission equal to 50% of the Net Profit	
Reinsurer:	Platinum Underwriters Reinsurance, Inc.	35%
	Swiss Re America Ins. Corporation-NY	65%

Accident Fund Minnesota Worker's Compensation Reinsurance Association

The company is required by statute to purchase reinsurance through its membership in the Minnesota Workers' Compensation Reinsurance Association, which provides per occurrence excess of loss reinsurance for Minnesota worker's compensation claims. Reinsurance contract terms include the following:

Reinsurer:	Minnesota Workers' Compensation Reinsurance Association
Reinsured:	BCBS of Michigan and subsidiaries
Business covered:	Excess of loss Minnesota worker's compensation claims
Retention:	Per occurrence limit of $1,840,000 in 2012

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, 2012, 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."

United Wisconsin Insurance Company
Assets
As of December 31, 2012

	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	$169,984,610	$	$169,984,610
Cash, cash equivalents, and short-term investments	23,797,913		23,797,913
Securities lending reinvested collateral assets	1,310,823		1,310,823
Investment income due and accrued	1,801,557		1,801,557
Premiums and considerations:			
Uncollected premiums and agents' balances in course of collection	33,191,409	1,168,663	32,022,746
Deferred premiums, agents' balances, and installments booked but deferred and not yet due	60,980,633	960,012	60,020,621
Accrued retrospective premiums	767,305	383,883	383,422
Reinsurance:			
Amounts recoverable from reinsurers	26,671,582		26,671,582
Other amounts receivable under reinsurance contracts	18,056,539	453,733	17,602,806
Amounts receivable relating to uninsured plans	316,654	698	315,956
Current federal and foreign income tax recoverable and interest thereon	4,093,780		4,093,780
Net deferred tax asset	13,037,555	7,196,763	5,840,792
Guaranty funds receivable or on deposit	23,899		23,899
Electronic data processing equipment and software	1,674	1,674	0
Furniture and equipment, including health care delivery assets	236,685	236,685	0
Receivable from parent, subsidiaries, and affiliates	190,769		190,769
Write-ins for other than invested assets:			
Due from Greenwich	143,000	143,000	0
Other receivables	546,532	546,532	0
Prepaid expense	163,646	163,646	0
Leasehold improvements	847,358	847,358	0
Tuition clearing account	(4,783)		(4,783)
Premiums receivable from reinsurers	339,188		339,188
Equities and deposits in pools	(22,626)		(22,626)
Total Assets	$356,475,702	$12,102,647	$344,373,055

United Wisconsin Insurance Company
Liabilities, Surplus, and Other Funds
As of December 31, 2012

Losses		$ 78,925,397
Reinsurance payable on paid loss and loss adjustment expenses		13,720,539
Loss adjustment expenses		13,152,075
Commissions payable, contingent commissions, and other similar charges		1,787,662
Other expenses (excluding taxes, licenses, and fees)		7,579,417
Taxes, licenses, and fees (excluding federal and foreign income taxes)		2,635,116
Unearned premiums		33,238,897
Dividends declared and unpaid:		
Policyholders		3,156,889
Ceded reinsurance premiums payable (net of ceding commissions)		40,357,614
Funds held by company under reinsurance treaties		65,805,430
Amounts withheld or retained by company for account of others		17,378
Payable to parent, subsidiaries, and affiliates		13,566,585
Payable for securities lending		1,310,823
Liability for amounts held under uninsured accident and health plans		170,000
Write-ins for liabilities:		
Accrued return retrospective premium		671,513
Escheat liabilities		28,215
A/P under reinsurance contracts		(83,542)
Suspense accounts		123,247
Deferred TPA service fees		309,234
Total liabilities		276,472,489
Common capital stock	$ 3,000,000	
Gross paid in and contributed surplus	40,820,098	
Unassigned funds (surplus)	24,080,468	
Surplus as regards policyholders		67,900,566
Total Liabilities and Surplus		$344,373,055

United Wisconsin Insurance Company
Summary of Operations
For the Year 2012

Underwriting Income		
Premiums earned		$59,843,352
Deductions:		
Losses incurred	$32,972,184	
Loss adjustment expenses incurred	10,830,799	
Other underwriting expenses incurred	15,980,773	
Total underwriting deductions		59,783,756
Net underwriting gain (loss)		59,596
Investment Income		
Net investment income earned	3,488,574	
Net realized capital gains (losses)	983,343	
Net investment gain (loss)		4,471,917
Other Income		
Net gain (loss) from agents' or premium balances charged off	(278,168)	
Finance and service charges not included in premiums	16,820	
Write-ins for miscellaneous income:		
Miscellaneous income	24,068	
Total other income		(237,280)
Net income (loss) before dividends to policyholders and before federal and foreign income taxes		4,294,233
Dividends to policyholders		2,519,542
Net income (loss) after dividends to policyholders but before federal and foreign income taxes		1,774,691
Federal and foreign income taxes incurred		(1,993,483)
Net Income		$ 3,768,174

United Wisconsin Insurance Company
Cash Flow
For the Year 2012

Premiums collected net of reinsurance			$91,487,141
Net investment income			5,065,110
Miscellaneous income			(237,280)
Total			96,314,971
Benefit- and loss-related payments		$42,909,874	
Commissions, expenses paid, and aggregate write-ins for deductions		27,919,097	
Dividends paid to policyholders		3,002,777	
Federal and foreign income taxes paid (recovered)		(3,999,997)	
Total deductions			69,831,751
Net cash from operations			26,483,220
Proceeds from investments sold, matured, or repaid:			
Bonds	$66,380,309		
Miscellaneous proceeds	917,227		
Total investment proceeds		67,297,536	
Cost of investments acquired (long-term only):			
Bonds		90,788,868	
Net cash from investments			(23,491,332)
Cash from financing and miscellaneous sources:			
Other cash provided (applied)			9,669,862
Reconciliation:			
Net change in cash, cash equivalents, and short-term investments			12,661,750
Cash, cash equivalents, and short-term investments:			
Beginning of year			11,136,163
End of Year			$23,797,913

United Wisconsin Insurance Company
Compulsory and Security Surplus Calculation
December 31, 2012

Assets		$344,373,055
Less liabilities		276,472,489
Adjusted surplus		67,900,566
Annual premium:		
Lines other than accident and health (net of dividends	$50,945,333	
Factor	20%	
Compulsory surplus (subject to a minimum of $2 million)		10,189,066
Compulsory Surplus Excess (or Deficit)		$ 57,711,500
Adjusted surplus (from above)		$ 67,900,566
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%)		14,162,801
Security Surplus Excess (or Deficit)		$ 53,737,765

United Wisconsin Insurance Company
Analysis of Surplus
For the Three-Year Period Ending December 31, 2012

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

	2012	2011	2010
Surplus, beginning of year	$64,250,448	$70,374,300	$78,517,978
Net income	3,768,174	(5,612,013)	(4,454,261)
Change in net deferred income tax	(2,407,029)	1,522,577	1,533,586
Change in nonadmitted assets	1,973,138	(1,470,400)	(928,495)
Dividends to stockholders			(4,000,000)
Write-ins for gains and (losses) in surplus:			
Additional pension liability	315,835	(214,566)	(294,508)
Additional DTA due to adoption of SSAP 10 R		(349,450)	
Surplus, End of Year	$67,900,566	$64,250,448	$70,374,300

United Wisconsin Insurance Company
Insurance Regulatory Information System
For the Three-Year Period Ending December 31, 2012

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	2012	2011	2010
#1	Gross Premium to Surplus	368%	393%	363%
#2	Net Premium to Surplus	79	93	102
#3	Change in Net Premiums Written	-11	-16	-7
#4	Surplus Aid to Surplus	0	0	0
#5	Two-Year Overall Operating Ratio	109*	114*	104*
#6	Investment Yield	2.0*	2.9*	3.7
#7	Gross Change in Surplus	6	-9	-10*
#8	Change in Adjusted Surplus	6	-9	-10*
#9	Liabilities to Liquid Assets	111*	127*	139*
#10	Agents' Balances to Surplus	47*	58*	58*
#11	One-Year Reserve Development to Surplus	3	7	11
#12	Two-Year Reserve Development to Surplus	14	18	14
#13	Estimated Current Reserve Deficiency to Surplus	23	-19	-17

Ratio No. 5 measures the company's profitability over the previous two-year period. The exceptional results in 2010 through 2012 are due to a combination of adverse loss development on prior accident years, lower investment income due to declining interest rates, and the impact of the funds withheld basis $400,000 x $100,000 excess of loss reinsurance agreement beginning in 2011.

Ratio No. 6 measures the yield on the average investment portfolio over the current and prior year. The exceptional results in 2011 and 2012 are due to declining interest rates in the investment market.

Ratios No. 7 and No 8 measure the improvement or deterioration in financial condition based on operational results. The exceptional results in 2010 reflect the decline in surplus due to an overall decline in underwriting results associated with prior year adverse loss development, coupled with declining investment income due to the downward trend in investment market rates and a $4 million shareholder dividend payment to the parent company.

Ratio No. 9 measures the insurer's ability to meet financial demands based on the ratio of total liabilities to liquid assets. The exceptional results in 2010 through 2012 are due to the impact of the Intercompany Pooling Agreement, where liquid assets are not pooled like liabilities are, and because ceded premiums payable exceeded assumed premiums receivable.

Ratio No.10 measures premium due as a ratio to surplus. The exceptional results in 2010 through 2012 reflect the fact that premium due includes both direct premium receivable and the impact of the premium receivable assumed under the Intercompany Pool. The 2012 ratio decrease reflects the pool percentage sharing decrease from 10.0% to 9.5%.

Growth of United Wisconsin Insurance Company

Year	Admitted Assets	Liabilities	Surplus as Regards Policyholders	Net Income
2012	$344,373,055	$276,472,489	$67,900,566	$ 3,768,174
2011	325,503,795	261,253,347	64,250,448	(5,612,013)
2010	335,295,904	264,921,604	70,374,300	(4,454,261)
2009	297,821,082	219,303,104	78,517,978	4,885,725

Year	Gross Premium Written	Net Premium Written	Premium Earned	Loss and LAE Ratio	Expense Ratio	Combined Ratio
2012	$249,586,841	$53,464,875	$59,843,353	73.2%	30.3%	103.5%
2011	252,236,624	60,066,946	58,754,683	87.5	31.9	119.4
2010	255,282,531	71,788,213	74,083,337	93.1	22.8	115.9
2009	266,409,398	78,958,461	77,208,981	77.9	23.6	101.5

The growth in admitted assets was attributed to UWIC assuming more net cash inflows from the intercompany pool than it ceded. UWIC cedes 100% of its direct written premium to the intercompany pool and assumes back 9.5% of the entire pool's premiums and losses. The increase in liabilities is due to an increase in funds held by the company under its $400,000 x $100,000 excess of loss reinsurance agreement beginning in 2011, whereby premium ceded to the reinsurers, less a margin payment, is retained on a funds withheld basis. The surplus decrease reflects declining net income as a result of adverse loss development and a one-time $4 million shareholder dividend payment to its parent, AFICA, in 2010. The net income decrease is primarily due to the impact of underwriting losses, adverse loss developments and declining investment markets. The decline in gross and net premium written reflects the impact of the increased ceding under the $400,000 x $100,000 excess of loss reinsurance agreement beginning in 2011. The loss ratio decreases in 2011 and 2012 likewise reflect increased ceding under the excess of loss reinsurance agreement, while the expense ratio increase reflects the fact that expenses are not ceded.

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, 2012, is accepted.

VII. SUMMARY OF EXAMINATION RESULTS

Compliance with Prior Examination Report Recommendations

There were 14 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. Management and Control—It is again recommended that the company's board of directors manage the business and affairs of the corporation and not delegate its power or responsibility to do so in accordance with s. 611.51 (6), Wis. Stat.

   Action—Compliance.

2. Management and Control—It is again recommended that the company file biographical affidavits for all officers and directors in accordance with s. Ins 6.52, Wis. Adm. Code.

   Action—Compliance.

3. Management and Control—It is recommended that the company amend its Articles and Bylaws as needed to keep them current and file them in a timely manner with the Office of the Commissioner of Insurance as required by ss. 611.29 and 611.12 (4), Wis. Stat.

   Action—Compliance.

4. Management and Control—It is recommended that the company identify itself as United Wisconsin Insurance Company in all correspondence, advertising, and other communications related to the insurance contract or other insurance business in compliance with s. 628.34 (1) (a), Wis. Stat., and that the company never identify itself as United Heartland without also indicating that United Heartland is "underwritten by United Wisconsin Insurance Company" as long as United Wisconsin Insurance Company remains the legal name of the company.

   Action—Compliance.

5. Management and Control—It is recommended that the company follow the Articles of Incorporation and the Bylaws in conducting its meetings and that the company maintain meeting minutes that adequately document all actions of the board, pursuant to ss.180.101 and 611.51 (9), Wis. Stat.

   Action—Compliance.

6. Service Agreements—It is again recommended that the company amend its managing general agreement with an unaffiliated mutual insurance company to reflect actual terms for services agreed upon.

   Action—Compliance.

7. Agent Appointments—It is again recommended that the insurer report to the commissioner all appointments and terminations of insurance agents in compliance with s. 628.11, Wis. Stat.

   Action—Compliance.

8. Policyholder Dividends—It is recommended that the company accrue all dividends declared by the board of directors as a liability, in accordance with SSAP 65, par. 45.

   Action—Compliance.

9. Policyholder Dividends—It is again recommended that the company comply with s. 631.51, Wis. Stat., in all respects concerning dividends on policies.

   Action—Compliance.

10. Affiliated Balances—It is recommended that all parties to the agreement properly bill and settle all intercompany balances in accordance with the Intercompany Services Agreement and the provisions set forth in SSAP 25 as modified by SSAP 96 of the NAIC Statements of Statutory Accounting Principles.

    Action—Compliance.

11. Annual Statement Reporting—It is recommended that the company properly report the employees' portion of payroll-related expenses in the "Amounts withheld or retained by the company for the account of others" line of the annual statement.

    Action—Compliance.

12. Business Continuity Plan—In order to ensure that the company updates its plans to address its current operating environment, it is recommended that the company provide a copy of the business continuity plan as soon as practical after the scheduled March 31, 2011, completion and a schedule showing the timing of the plan review and any tests to be performed.

    Action—Compliance.

13. Information Technology—It is again recommended that the company establish improved IT security procedures including compliance reviews.

    Action—Compliance.

14. Access Reviews—It is again recommended that the company implement a process to perform periodic reviews to ensure that access to its data is limited to those accounts that are authorized and that access rights are appropriate.

    Action—Partial 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.

Schedule P Reporting

Review of UWIC's Annual Statement Schedule P, Part 1, Analysis of Losses and Loss Expenses, indicated that reporting appeared to reflect the company's direct, assumed and ceded business including reinsurance related to the pool. Follow-up with the company's accounting team indicated that all Accident Fund Group companies have prepared and filed Schedule P, Part 1, on a gross basis since the inception of the Intercompany Pooling Agreement in 2006. Schedule P reporting for companies that are part of a pool should reflect the company's share of the combined pool business. Accordingly, in the case of UWIC, Schedule P, Part 1, should reflect their pooling participation percentage, or 9.5%, of the combined schedule for the entire Accident Fund pool. The company concurred indicating its intention to update Schedule P reporting to ensure all future statements are properly reported. While the above reporting procedure had no financial effect, it does result in a presentation issue. It is recommended that the company prepare Schedule P, Part 1, in accordance with the requirements for pooled companies as prescribed by the NAIC Annual Statement Instructions – Property & Casualty.

Security Access Review

Prior examinations recommended that the company implement a process to perform periodic security access reviews to ensure that data access is limited to authorized individuals in accordance with current assigned job roles. IT staff at UWIC indicated partial compliance supported by the following:

- User access review of the Diamond premium application system was completed in 2012
- Access review was not completed in 2013 due to Diamond system enhancement project resource constraints
- Access security review of Premium Billing integration into Diamond was performed in 2014
- Company intention to complete a full review with business managers in 2014 and annually thereafter

It is again recommended that IT management follow through its intention to establish a formal program for periodic user access rights review, which is part of a more routine and consistent scheduled process, to ensure user access rights are limited to authorized staff consistent with assigned responsibilities.

Executive Compensation

The state of Wisconsin requires that each Wisconsin-domiciled insurer file a supplement to the annual statement titled "Report on Executive Compensation" pursuant to ss. 601.42 and 611,63 (4), Wis. Stat. This report includes the total annual compensation paid to each director, the chief executive officer and the four most highly paid officers or employees other than the chief executive officer. In addition, the report requires disclosure of all officers and employees whose compensation exceeds specified amounts based on year-end capital and surplus. Compensation reported should include all gross, direct and indirect remuneration paid and accrued during the report year for the benefit of the individual, including wages, salaries, bonus, retirement benefits, deferred compensation, commissions, fees and other forms of personal compensation. The examination noted that the Report on Executive Compensation filed for 2012 did not include contributions made for pension and 401(k) retirement benefit plans.

It is recommended that the company comply with s. 611.63 (4), Wis. Stat., by reporting all compensation received by officers or employees in accordance with the instructions stated on the Report on Executive Compensation.

VIII. CONCLUSION

United Wisconsin Insurance Company reported admitted assets of $344,373,055, total liabilities of $276,472,489 and policyholders' surplus of $67,900,566 as of December 31, 2012. Policyholders' surplus decreased 14% for the three-year period under examination. The policyholders' surplus decrease reflects declining net income during this period associated with net underwriting losses, adverse loss development and a $4 million shareholder dividend payment to its parent, AFICA.

The examination resulted in three recommendations, one of which was repeated from the prior examination. The recommendations are summarized on the following page. There were no adjustments to surplus.

IX. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 29 - Schedule P Reporting—It is recommended that the company prepare Schedule P, Part 1, in accordance with the requirements for pooled companies as prescribed by the NAIC Annual Statement Instructions – Property & Casualty.

2. Page 30 - Security Access Review—It is again recommended that IT management follow through its intention to establish a formal program for periodic user access rights review, which is part of a more routine and consistent scheduled process, to ensure user access rights are limited to authorized staff consistent with assigned responsibilities.

3. Page 30 - Executive Compensation—It is recommended that the company comply with s. 611.63 (4), Wis. Stat., by reporting all compensation received by officers or employees in accordance with the instructions stated on the Report on Executive Compensation.

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
Dan Schroeder	Insurance Financial Examiner
Holly Poore	Insurance Financial Examiner
David Jensen	IT Specialist
Jerry DeArmond	Reserve Specialist

Respectfully submitted,

Tom Janke
Examiner-in-Charge