Report

of the

Examination of

WEA Property & Casualty Insurance Company

Madison, Wisconsin

As of December 31, 2011

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State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

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March 7, 2013

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:

WEA PROPERTY & CASUALTY INSURANCE COMPANY
Madison, Wisconsin

and this report is respectfully submitted.

I. INTRODUCTION

The previous examination of WEA Property & Casualty Insurance Company (WEA P&C or the company) was conducted in 2007 as of December 31, 2006. The current examination covered the intervening period ending December 31, 2011, and included a review of such 2012 transactions as deemed necessary to complete the examination.

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

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

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

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

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

II. HISTORY AND PLAN OF OPERATION

The company was organized in 1993. The company is licensed as a stock property and casualty insurance company under ch. 611, Wis. Stat., and is controlled by its sole shareholder, WEA Member Benefit Trust (WMBT).

WEA P&C is licensed and writes direct premium in Wisconsin only. The products are directly marketed to union member teachers and other school employees. The major products marketed by the company include automobile, homeowner's, inland marine, and umbrella.

The following table is a summary of the net insurance premiums written by the company in 2011. The growth of the company is discussed in the "Financial Data" section of this report.

Line of Business	Direct Premium	Reinsurance Ceded	Net Premium
Homeowner's multiple peril	$ 4,664,270	$1,332,773	$ 3,331,497
Inland marine	233,595	0	233,595
Other liability – occurrence	551,354	524,416	26,938
Private passenger auto liability	4,189,329	551,096	3,638,233
Auto physical damage	3,342,733	169,868	3,172,865
Total All Lines	$12,981,281	$2,578,153	$10,403,128

III. MANAGEMENT AND CONTROL

Board of Directors

The board of directors consists of seven members. All directors are elected annually to serve a one-year term. Officers are elected at the board's annual meeting. Members of the company's board of directors may also be members of other boards of directors in the holding company group. The board members currently receive no compensation for serving on the board but receive expense reimbursements for mileage and travel expenses to attend meetings.

Currently the board of directors consists of the following persons:

Name and Residence	Principal Occupation	Term Expires
Suzanne Brown Muscoda, Wisconsin	Retired Teacher	2013
Kay Hansen Denmark, Wisconsin	Education Support Professional	2013
David Harswick Madison, Wisconsin	Retired Teacher WEAC Secretary-Treasurer	2013
Robert Lehmann Sussex, Wisconsin	Retired Teacher	2013
Patrick McGrath Port Edwards, Wisconsin	Retired Teacher and Judge for Port Edwards, Wisconsin	2013
Clayton Smits DePere, Wisconsin	Retired Teacher	2013
Elaine Stelter Eau Claire, Wisconsin	Retired Teacher	2013

Officers of the Company

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

Name	Office	2011 Compensation
David Kijek	President	$117,986
Merry Bachim	Secretary	33,311
Rhonda Scheel	Treasurer	74,879
James Polcyn	Vice President	129,957

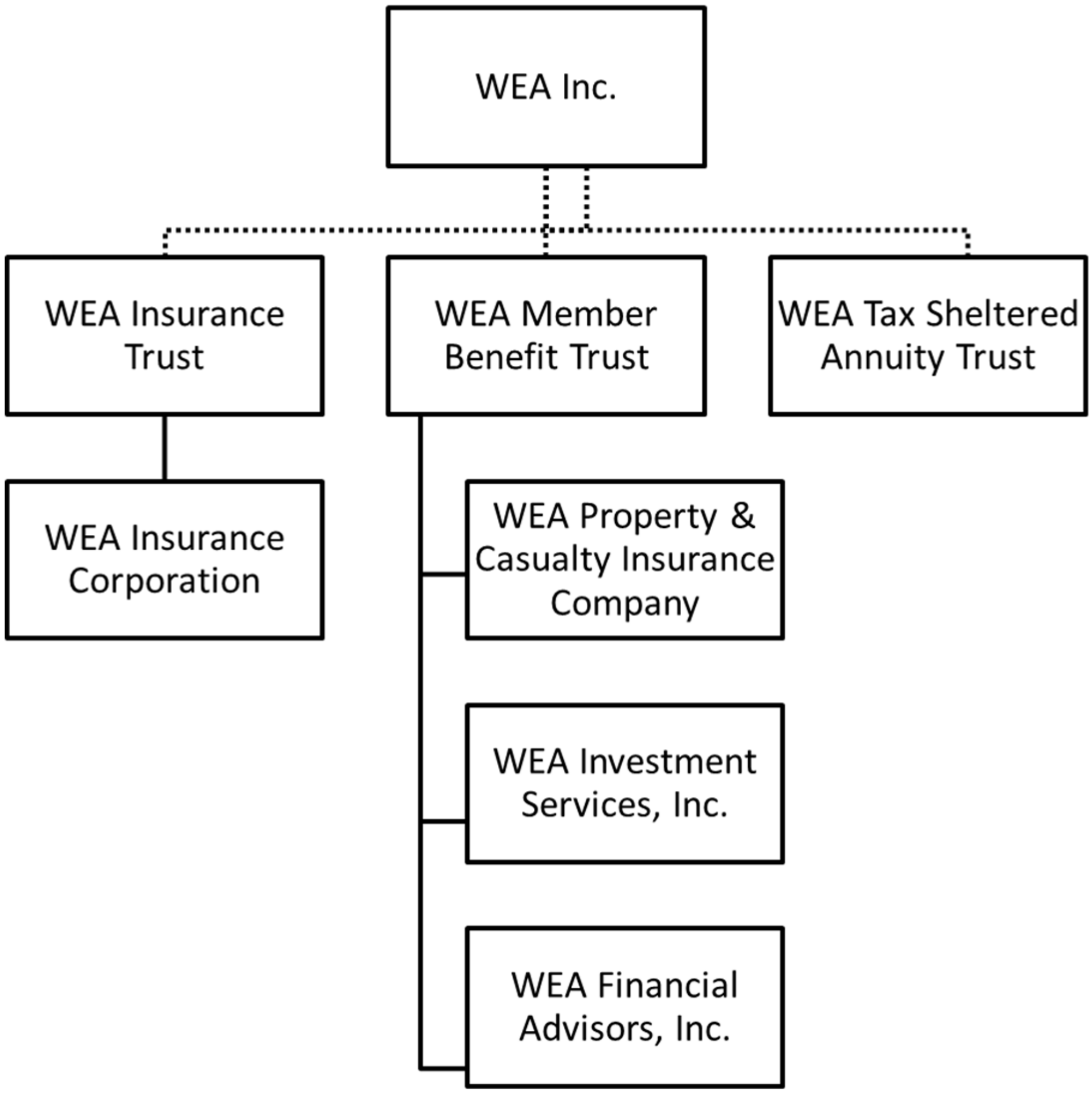
Committees of the Board

The company's bylaws allow for the formation of certain committees by the board of directors. The board had an Executive Committee, Audit Committee and Compensation Committee at the time of the examination to which all board members are appointed.

IV. AFFILIATED COMPANIES

WEA Property & Casualty 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, 2011



Wisconsin Education Association Council (WEAC)

WEAC is an unincorporated labor organization whose members are local unions affiliated with the National Education Association. WEAC is directed towards promoting the interests of its member school district employees.

Wisconsin Education Association, Inc.

This corporation is a Wisconsin not-for-profit corporation established by a special act of the Wisconsin Legislature. Its principal functions are real estate ownership and trustee appointments.

WEA Insurance Trust (WEAIT)

WEAIT was established by Wisconsin Education Association, Inc., in 1970 to provide various insurance benefits to qualified union member teachers and school district employees. WEAIT is exempt from federal income tax as a voluntary employee benefit association.

WEAITs health benefit plans, including medical, dental, drug, disability, and long-term care, are underwritten exclusively by WEAIC. Life insurance coverage is underwritten by an unaffiliated insurance company. As of December 31, 2011, the audited financial statements of WEAIT reported assets of $749,343,156, liabilities of $432,686,840, and equity of $316,660,316. Operations for 2011 produced net loss of $(1,792,746).

WEA Member Benefit Trust (WMBT)

WMBT was established in 1972 to provide property and casualty insurance coverages to qualified union member teachers and school district employees. Before 1993, WMBT placed coverages with unaffiliated insurers, but now most business is underwritten by WMBT’s subsidiary, WEA Property & Casualty Insurance Company. WMBT was formerly called WEA Liability and Casualty Insurance Trust until the name was changed effective January 1, 1997.

As of December 31, 2011, the audited financial statements of WMBT reported assets of $3,866,423, liabilities of $1,886,110, and equity of $1,980,313. Operations for 2011 produced net loss of $(730,709).

WEA Insurance Corporation (WEAIC)

WEAIC was established in 1985 to underwrite accident and health insurance coverages to qualified union member teachers and school district employees. Products offered by the company include medical, dental, drug, disability, and long-term care insurance.

As of December 31, 2011, the audited financial statements of WEAIC reported assets of $643,667,925, liabilities of $422,205,421, and surplus of $219,462,504. Operations for 2011 produced net loss of $(509,760).

WEA Tax-Sheltered Annuity Trust (WEA TSAT)

WEA TSAT was established in 1978 to facilitate the investment of funds for qualified union member teachers and school district employees in mutual funds and a tax-sheltered annuity contract. WEA TSAT holds a group annuity contract issued by Prudential Financial (formerly Connecticut General Life Insurance Company).

As of December 31, 2011, the audited financial statements of WEA TSAT reported assets of $3,904,302, liabilities of $1,304,743, and equity of $2,599,559. Operations for 2011 produced net gain of $1,022,061.

WEA Investment Services, Inc. (WEA IS)

WEA Investment Services, Inc., was established in 2003 for the purpose of facilitating mutual fund trading on behalf of its related entities. The company is an entry-level broker-dealer registered with the Securities and Exchange Commission (SEC) and is a member of the Financial Industry Regulatory Authority (FINRA).

As of December 31, 2011, the audited financial statements of WEA Investment Services, Inc., reported assets of $124,277, liabilities of $33,681, and stockholder's equity of $90,596. Operations of 2011 produced net loss of $(1,383).

WEA Financial Advisors, Inc. (WEA FA)

WEA Financial Advisors, Inc., was established in 2007 for the purpose of providing retirement income and investment advice for qualified union member teachers and school district employees.

As of December 31, 2011, the audited financial statements of WEA Financial Advisors, Inc., reported assets of $67,954, liabilities of $528,858, and stockholder's equity of $(460,904). Operations of 2011 produced net loss of $(16,233).

Agreements with Affiliates

Interorganizational Harmony Agreement

WEAC entered into the Interorganizational Harmony Agreement with WEAIC and the company. WEAC is the sponsor and creator of all of the trusts. WEA P&C entered into this agreement as the administrator and agent of the WMBT (the owner of WEA P&C, WEA IS, and WEA FA) and the WEA TSAT. WEAIC entered into this agreement as the administrator and agent of the WEAIT (the owner of the WEAIC). This agreement states that WEAIC will provide administrative services on a cost reimbursement basis for all entities in the group, which includes accounting and bookkeeping, mailroom, printing, purchasing, archives and records retention, business recovery, payroll, recruiting, personnel administration, employee benefits administration, investment management, financial planning, building services, information processing, telecommunication services, and limited legal services. The agreement further states that WEAIT retains title to all real estate and will provide space on a cost reimbursement basis. Settlement for accumulated balances due each other as of year-end are paid in full no later than March 31 of the following year.

V. REINSURANCE

The company's reinsurance portfolio and strategy is described below. A list of the companies that have a significant amount of reinsurance in force at the time of the examination follows. The contracts contained proper insolvency provisions.

Nonaffiliated Ceding Contracts

1.	Type:	Quota Share and Excess of Loss
	Reinsurer:	General Reinsurance Corporation
	Scope:	Personal Umbrella
	Retention:	5% of the first $1,000,000 each occurrence
	Coverage:	95% of the first $1,000,000 each occurrence and 100% of the difference between the policy limit and the first $1,000,000 each occurrence. The limit of liability of the company with respect to any one policy should not exceed $2,000,000 each occurrence. Policies with limits over $3,000,000 are subject to special acceptance by the reinsurer.
	Premium:	Premium is due monthly, after 25 days of the close of each month. With respect to business in force at the effective time and date of the agreement: 95% of the company's unearned premium for policy limits up to and including $1,000,000 each occurrence and 100% of the unearned premium for policy limits in excess of $1,000,000 each occurrence. With respect to business becoming effective at and after the effective time and date of the agreement: 95% of the company's subject written premium for policy limits up to and including $1,000,000 each occurrence and 100% of the company's subject written premium for policy limits in excess of $1,000,000 each occurrence.
	Commissions:	Fixed commission of 30% of the reinsurance premiums
	Effective date:	January 1, 2008
	Termination:	Run-off basis. Requires 90 days' prior written notice by either party to cancel.
2.	Type:	Excess of Loss Reinsurance
	Reinsurer:	General Reinsurance Corporation
	Scope:	Homeowner's property business and all personal liability business, with stated exclusions. Catastrophe portion covers homeowner's and automobile physical damage, with stated exclusions.
	Retention:	Liability and Property: $125,000 Property Catastrophe: $250,000 plus 5% of the next $3,400,000

Coverage: Liability and Property: Covers losses and proportional share of loss adjustment expenses, as well as 80% of extra contractual obligations. In addition, 80% of losses in excess of policy limits are covered for liability business. The reinsurer's limit of liability for losses in excess of policy limits and extra contractual obligations is $3,000,000. In the case of events involving both covered property and liability risks, net losses in excess of $100,000 are covered to a limit of $100,000.

	First Excess	**Second Excess**	**Third Excess**
Liability limit	$ 75,000	$ 800,000	$1,000,000
Property limit	75,000	800,000	1,000,000
Property aggregate limit	300,000	1,600,000	1,000,000

Property Catastrophe: 95% of net losses in excess of the company's retention. Property catastrophe coverage provides for one automatic reinstatement with the same limit of liability of the reinsurer as shown below.

	First Excess	**Second Excess**	**Third Excess**
Limit (95% of)	$ 50,000	$700,000	$1,650,000

Premium: Subject written premium (SWP) is defined as follows: Liability – 100% of auto liability direct written premium (DWP) and 20% of homeowner's DWP; Property – 80% of homeowner's DWP; Property Catastrophe – 100% of automobile physical damage DWP and 80% of homeowner's DWP.

	First Excess	**Second Excess**	**Third Excess**	**Fourth Excess**
Auto liability	6.13%	7.91%	1.46%	
Other liability (homeowner's)	5.43%	6.21%	2.39%	
Property	7.81%	12.70%	0.90%	
Catastrophe	0.38%	4.43%	1.93%	1.25%
Deposit premium	$18,500	$213,000	$93,000	$60,000

Commissions: None

Effective date: Liability and Property: July 1, 2011
Property Catastrophe: January 1, 2012

Termination: Liability and property portions are continuous and require 90 days' prior written notice by either party to cancel. Property catastrophe coverage is written year to year and expires on December 31, unless renewed. Termination is on a run-off basis.

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, 2011, 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."

WEA Property & Casualty Insurance Company
Assets
As of December 31, 2011

	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	$ 9,622,861	$ 0	$ 9,622,861
Common stocks	23,381	0	23,381
Cash, cash equivalents, and short-term investments	2,998,316	0	2,998,316
Investment income due and accrued	88,363	0	88,363
Uncollected premiums and agents' balances in course of collection	33,894	0	33,894
Deferred premiums, agents' balances, and installments booked but deferred and not yet due	2,736,176	0	2,736,176
Amounts recoverable from reinsurers	449,082	0	449,082
Current federal and foreign income tax recoverable and interest thereon	353,616	0	353,616
Net deferred tax asset	831,000	316,000	515,000
Electronic data processing equipment and software	71,539	4,109	67,430
Furniture and equipment, including health care delivery assets	4,277	4,277	0
Receivable from parent, subsidiaries, and affiliates	394,584	145,648	248,936
Prepaid expense	93,555	93,555	0
Other assets	19,049	19,049	0
Total Assets	$17,719,693	$582,638	$17,137,055

WEA Property & Casualty Insurance Company
Liabilities, Surplus, and Other Funds
As of December 31, 2011

Losses		$ 4,211,747
Loss adjustment expenses		700,000
Commissions payable, contingent commissions, and other similar charges		3,101
Other expenses (excluding taxes, licenses, and fees)		1,172,772
Taxes, licenses, and fees (excluding federal and foreign income taxes)		252
Unearned premiums		4,643,638
Advance premium		90,311
Ceded reinsurance premiums payable (net of ceding commissions)		491,266
Amounts withheld or retained by company for account of others		23,381
Payable to parent, subsidiaries, and affiliates		26,248
Payable for securities		663,787
Total liabilities		12,026,503
Write-ins for special surplus funds:		
Change in surplus-application of SSAP 10R	$ 110,000	
Common capital stock	700	
Surplus notes	1,600,000	
Gross paid in and contributed surplus	2,229,800	
Unassigned funds (surplus)	1,170,052	
Surplus as regards policyholders		5,110,552
Total Liabilities and Surplus		$17,137,055

WEA Property & Casualty Insurance Company
Summary of Operations
For the Year 2011

Underwriting Income		
Premiums earned		$10,300,893
Deductions:		
Losses incurred	$7,772,692	
Loss adjustment expenses incurred	943,547	
Other underwriting expenses incurred	3,304,321	
Total underwriting deductions		12,020,560
Net underwriting gain (loss)		(1,719,667)
Investment Income		
Net investment income earned	262,341	
Net realized capital gains (losses)	174,727	
Net investment gain (loss)		437,068
Other Income		
Net gain (loss) from agents or premium balances charged off	(36,801)	
Write-ins for miscellaneous income:		
Miscellaneous income	23,357	
Total other income		(13,444)
Net income (loss) before dividends to policyholders and before federal and foreign income taxes		(1,296,043)
Dividends to policyholders		0
Net income (loss) after dividends to policyholders but before federal and foreign income taxes		(1,296,043)
Federal and foreign income taxes incurred		(334,629)
Net Loss		$ (961,414)

WEA Property & Casualty Insurance Company
Cash Flow
For the Year 2011

Premiums collected net of reinsurance			$10,219,874
Net investment income			392,908
Miscellaneous income			23,358
Total			10,636,140
Benefit- and loss-related payments		$ 7,036,826	
Commissions, expenses paid, and aggregate write-ins for deductions		3,902,535	
Federal and foreign income taxes paid (recovered)		(334,029)	
Total deductions			10,605,332
Net cash from operations			30,808
Proceeds from investments sold, matured, or repaid:			
Bonds	$7,693,572		
Stocks	7,978,317		
Miscellaneous proceeds	663,787		
Total investment proceeds		16,335,676	
Cost of investments acquired (long-term only):			
Bonds	8,171,514		
Stocks	6,443,636		
Total investments acquired		14,615,150	
Net cash from investments			1,720,526
Cash from financing and miscellaneous sources:			
Capital and paid in surplus less treasury stock		1,500,000	
Other cash provided (applied)		(51,799)	
Net cash from financing and miscellaneous sources			1,448,201
Reconciliation:			
Net change in cash, cash equivalents, and short-term investments			3,199,535
Cash, cash equivalents, and short-term investments:			
Beginning of year			(201,219)
End of Year			$ 2,998,316

WEA Property & Casualty Insurance Company
Compulsory and Security Surplus Calculation
December 31, 2011

Assets		$17,137,055
Less security surplus of insurance subsidiaries		0
Less liabilities		12,026,503
Adjusted surplus		5,110,552
Annual premium:		
Lines other than accident and health	$10,403,128	
Factor	20%	
Compulsory surplus (subject to a minimum of $2 million)		2,080,625
Compulsory Surplus Excess (or Deficit)		$ 3,029,927
Adjusted surplus (from above)		$ 5,110,552
Security surplus: (140% of compulsory surplus, factor reduced 1% for each $33 million in premium written in excess of $10 million, with a minimum factor of 110%)		2,912,875
Security Surplus Excess (or Deficit)		$ 2,197,677

WEA Property & Casualty Insurance Company
Analysis of Surplus
For the Five-Year Period Ending December 31, 2011

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

	2011	2010	2009	2008	2007
Surplus, beginning of year	$4,449,087	$5,122,384	$4,866,142	$5,231,751	$4,878,819
Net income	(961,414)	(419,206)	713,926	(104,704)	290,193
Change in net unrealized capital gains/losses	292	955	(119)	0	0
Change in net deferred income tax	(43,000)	86,000	60,000	87,000	109,000
Change in nonadmitted assets	(10,413)	(41,046)	(217,565)	(47,905)	(46,261)
Change in surplus notes	0	(300,000)	(300,000)	(300,000)	0
Cumulative effect of changes in accounting principles	66,000	0	0	0	0
Surplus adjustments:					
Paid in	1,500,000	0	0	0	0
Write-ins for gains and (losses) in surplus:					
Change in surplus-application of SSAP 10R	110,000	0	0	0	0
Surplus, End of Year	$5,110,552	$4,449,087	$5,122,384	$4,866,142	$5,231,751

WEA Property & Casualty Insurance Company
Insurance Regulatory Information System
For the Five-Year Period Ending December 31, 2011

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	**2011**	**2010**	**2009**	**2008**	**2007**
#1	Gross Premium to Surplus	254%	285%	226%	224%	203%
#2	Net Premium to Surplus	204	231	188	189	173
#3	Change in Net Premiums Written	1	7	5	2	4
#4	Surplus Aid to Surplus	3	1	1	1	1
#5	Two-Year Overall Operating Ratio	110*	98	94	96	90
#6	Investment Yield	2.3*	2.9*	4.0	4.9	5.1
#7	Gross Change in Surplus	15	-13*	5	-7	7
#8	Change in Adjusted Surplus	-19*	-7	11	-1	7
#9	Liabilities to Liquid Assets	73	75	63	68	61
#10	Agents' Balances to Surplus	1	1	3	2	2
#11	One-Year Reserve Development to Surplus	1	2	-1	-6	-11
#12	Two-Year Reserve Development to Surplus	1	-1	-2	-13	-15
#13	Estimated Current Reserve Deficiency to Surplus	-17	-7	8	-10	-6

Ratio No. 5 measures the company's profitability over the previous two-year period. The exceptional results in 2010 and 2011 were due to several unusually severe storms resulting in numerous claims. Ratio No. 6 measures the profitability of the invested assets. The company's investment income was lower than the IRIS standard in 2010 and 2011 due to the composition of the company's investment portfolio. The company invested in low-risk, fixed-income investments, which provide lower yields. Ratios No. 7 and No. 8 measure the gross change in surplus and adjusted surplus from one year to the next. In 2010 the company's surplus was impacted by the company's net loss, change in nonadmitted assets and a change in surplus notes, causing the exceptional result for Ratio No. 7. In 2011 the company's surplus was impacted again by the company's net loss, change in deferred taxes and nonadmitted assets, causing the exceptional result for Ratio No. 8.

Growth of WEA Property & Casualty Insurance Company

Year	Admitted Assets	Liabilities	Surplus as Regards Policyholders	Net Income
2011	$17,137,055	$12,026,503	$5,110,552	$(961,414)
2010	15,027,645	10,578,558	4,449,087	(419,206)
2009	14,204,286	9,081,902	5,122,384	713,926
2008	14,068,665	9,202,523	4,866,142	(104,704)
2007	13,574,231	8,342,480	5,231,751	290,193
2006	12,904,570	8,025,751	4,878,819	559,628

Year	Gross Premium Written	Net Premium Written	Premium Earned	Loss and LAE Ratio	Expense Ratio	Combined Ratio
2011	$12,981,281	$10,403,128	$10,300,893	84.6%	31.9%	116.5%
2010	12,669,723	10,290,504	9,947,534	72.6	36.1	108.7
2009	11,591,892	9,628,495	9,297,057	56.0	37.2	93.2
2008	10,885,306	9,190,347	9,041,808	72.6	33.8	106.4
2007	10,634,790	9,027,334	8,789,590	65.8	31.6	97.4
2006	10,757,615	8,646,872	8,569,006	64.1	30.5	94.6

Gross premium written increased 18.1% since 2007 and net premium written increased by 15% while the net losses paid increased by 35.7% from 2007. The company has experienced net losses over the past two years and surplus as regards policyholders has decreased by 2.3% from 2007. The net losses in 2010 and 2011 are due to a large volume of claims incurred related to severe weather. Growth in gross premiums is due to rate adjustments taken in 2010 and 2011 as policy counts have remained flat. The company's net underwriting expenses decreased by 11.7% over the prior year. In July of 2011, the company amended their excess reinsurance contract to include a ceding commission.

The company had net income in three out of the five years under examination, with net losses sustained in 2010 and 2011. Admitted assets increased 20.8% and liabilities increased 30.6% during the period under examination. Surplus has decreased 2.4% over the years under examination from $5,231,751 in 2007 to $5,110,552 in 2011.

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, 2011, is accepted.

VII. SUMMARY OF EXAMINATION RESULTS

Compliance with Prior Examination Report Recommendations

There were four 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. Board of Directors—It is recommended that the company maintain corporate records to document compliance with the company's bylaws in regards to formation of the executive committee.

   Action—Compliance.

2. Invested Assets—It is recommended that the custodial agreements include the following clause:

   > In the event of a loss of securities for which the custodian is obligated to indemnify WEAPC, the securities and the value of any loss of rights or privileges resulting from the loss of securities shall be promptly replaced.

   Action—Compliance.

3. Invested Assets—It is recommended that the company accurately disclose each security's SVO designation in the annual statement, as required by the NAIC Annual Statement Instructions – Property and Casualty.

   Action—Compliance.

4. Guarantee Fund Assessment—It is recommended that the company report guarantee fund assessment in line 6, Taxes, Licenses and Fees, on the liability page of the annual statement in accordance with the NAIC Annual Statement Instructions – Property and Casualty.

   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.

Business Continuity Plan

The purpose of the business continuity plan is to identify in advance the actions necessary and resources required to enable the insurer to manage an interruption regardless of its cause. Examples include, but are not limited to, the inability to access its computer, the loss of information on its computer, the loss of a key employee, or the destruction of its office building. The plan should be a formal documentation of the insurer's business continuity strategy and should be considered a "living document." Some basic elements that should be included in a business continuity plan include: crisis management and incident responses, roles and responsibilities within the organization, recovery of all critical business functions and supporting systems, identified alternate recovery sites, and communication with policyholders, employees, primary regulators and other stakeholders. The business continuity plan should be written and should include a step-by-step framework that is easily accessible and able to be read in an emergency situation. The insurer's business continuity plan should be reviewed, tested, and updated on an annual basis.

The examination disclosed that the company had not identified any alternate site for IT staff or equipment. Their business continuity plan specifies that the WEA Insurance Corporation's Facilities Department will identify a site for them to work in at the time of the disaster. It is critical to identify alternate work sites in the business continuity plan in advance for sustainable business operations. It is recommended that the company identify alternate sites for their IT systems and employees as a key element in their business continuity plan.

The examination disclosed that the company has not had a formal test of their business continuity plan as well as a business impact analysis since April of 2006. Testing of business continuity plans should be performed annually to determine the plan's viability and the company's readiness to operate continuously in the event of business interruption. It is recommended that key aspects of the business continuity plan be tested annually and that the test be based on clear objectives that will allow the results of the test to be scored to determine the effectiveness of the plan.

Affiliated Agreements

The Interorganizational Harmony Agreement, described under the "Affiliated Companies" section of this report, was reviewed during the examination. The parties to the agreement are the company, WEA Insurance Corporation (WEAIC), and the Wisconsin Education Association Council (WEAC). WEAC is the sponsor and creator of all of the related trusts. The company entered into this agreement as the administrator and agent of the WMBT [the owner of the company, WEA Investment Services, Inc. (WEA IS), WEA Financial Advisors, Inc. (WEA FA)] and the WEA Tax-Sheltered Annuity Trust (WEA TSAT). WEAIC entered into this agreement as the administrator and agent of the WEAIT (the owner of WEAIC). The review of affiliated transaction details provided by WEAIC disclosed that WMBT and WEA TSAT are directly transferring monthly payments to WEAIC for management and services. The examination review of year-end settlement detail disclosed WEA IS and WEA FA, who are not party to the agreement, were included in the year-end settlement. Under the NAIC Accounting Practices and Procedures Manual (SSAP) No. 25, transactions between related parties must be in the form of a written agreement and the agreement must provide for timely settlement of amounts owed, with specified due date. Pursuant to s. Ins 40.04 (1), Wis. Adm. Code, and s. 617.21 (1), Wis. Stat., the company is required to have procedures in place to ensure all transactions with affiliates are reasonable and fair to the interests of the insurer. Since transactions are occurring for services rendered by WEAIC that are not covered under the written agreement, the company is not in compliance with this requirement. It is recommended that the company adopt management and service agreements that clearly identify all entities participating in the arrangement as well as the reimbursement and settlement arrangements between the entities, pursuant to SSAP No. 25, s. Ins 40.04 (1), Wis. Adm. Code, and s. 617.21 (1), Wis. Stat.

Holding Company Transactions

Schedule Y, Part 2, of the annual statement provides information about insurer members of a holding company group and an overview of transactions among insurance holding company system members. The examination noted that no amounts were reported under Column 8, Management Agreements and Service Contracts, on Schedule Y, Part 2, as required by NAIC Annual Statement Instructions – Property and Casualty. According to WEA P&C's holding company registration statement filing (Form B), item 5, the company reported one cost allocation agreement, the Interorganizational Harmony Agreement. It is recommended that the company report all revenues/expenditures resulting from any intercompany agreements on Schedule Y, Part 2, as required by NAIC Annual Statement Instructions – Property and Casualty.

VIII. CONCLUSION

The examination found that WEA Property & Casualty Insurance Company had admitted assets of $17,137,055, liabilities of $12,026,503, and surplus of $5,110,552 as of December 31, 2011. Operations for 2011 produced net loss of $(961,414). Over the five-year period under examination the company's reported policyholders' surplus decreased by approximately 2.3%, primarily due to severe storm events in 2010 and 2011 which caused the company to report large underwriting losses. Gross premium written increased 18.1% since 2007 and net premium written increased by 15% while the net losses paid increased by 35.7% from 2007. Growth in gross premiums is due to rate adjustments taken in 2010 and 2011, as policy counts have remained flat. The company's net underwriting expenses decreased by 11.7% over the prior year. In July of 2011, the company amended their excess reinsurance contract to include a ceding commission.

The company has complied with all four prior examination recommendations. The current examination resulted in four recommendations, with no reclassifications or adjustments to surplus.

IX. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 23 - Business Continuity Plan—It is recommended that the company identify alternate sites for their IT systems and employees as a key element in their business continuity plan.

2. Page 23 - Business Continuity Plan—It is recommended that key aspects of the business continuity plan be tested annually and that the test be based on clear objectives that will allow the results of the test to be scored to determine the effectiveness of the plan.

3. Page 24 - Affiliated Agreements—It is recommended that the company adopt management and service agreements that clearly identify all entities participating in the arrangement as well as the reimbursement and settlement arrangements between the entities, pursuant to SSAP No. 25, s. Ins 40.04 (1), Wis. Adm. Code, and s. 617.21 (1), Wis. Stat.

4. Page 25 - Holding Company Transactions—It is recommended that the company report all revenues/expenditures resulting from any intercompany agreements on Schedule Y, Part 2, as required by NAIC Annual Statement Instructions – Property and Casualty.

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**
Karl Albert	Insurance Financial Examiner
Raymond Kangogo	Insurance Financial Examiner
Holly Poore	Insurance Financial Examiner
Marisa Rodgers	Insurance Financial Examiner
Victoria Chi	IT Specialist
Jerry DeArmond	Reserve Specialist
Fred Thornton	Workpaper Specialist

Respectfully submitted,

Judith Michael
Examiner-in-Charge