Report

of the

Examination of

Wisconsin Reinsurance Corporation

Madison, Wisconsin

As of December 31, 2014

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

February 19, 2016

Honorable Theodore K. Nickel
Commissioner of Insurance
State of Wisconsin
125 South Webster Street
Madison, Wisconsin 53703

Commissioner:

In accordance with your instructions, a compliance examination has been made of the affairs and financial condition of:

WISCONSIN REINSURANCE CORPORATION
Madison, Wisconsin

and this report is respectfully submitted.

I. INTRODUCTION

The previous examination of Wisconsin Reinsurance Corporation (hereinafter WRC or the company) was conducted in 2011 as of December 31, 2010. 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. In addition to auditing, the public accounting firm performs tax compliance services for the company.

Independent Actuary's Review

An independent actuarial firm was engaged under a contract with the Office of the Commissioner of Insurance. The actuary reviewed the adequacy of the company's loss and loss adjustment expense reserves. The actuary's results were reported to the examiner-in-charge. As deemed appropriate, reference is made in this report to the actuary's conclusion.

II. HISTORY AND PLAN OF OPERATION

Wisconsin Reinsurance Corporation is a Wisconsin-domiciled property and casualty insurance company. The present-day company is the successor to an unincorporated association of town mutual insurers which was initially organized in 1942 under the name Mutual Spread Loss Association (MSLA). MSLA served as a reinsurance mechanism whereby each member insurer ceded excess loss risks and participated in pooled reinsurance assumption.

MSLA was dissolved and effective December 15, 1972, the company was incorporated in Wisconsin as a mutual reinsurance company under the name Mutual Spread Loss Reinsurance, Inc. (MSLR). Ownership and control of MSLR was exercised by its member town mutual insurers, and MSLR operated as a reinsurer of risks written by the member insurers. Effective December 31, 1982, Wisconsin Town Mutual Reinsurance Company (WTMRC) was merged into MSLR. WTMRC was originally incorporated in November 1931, and at the time of its merger into MSLR was licensed as a town mutual reinsurer under ch. 612, Wis. Stat. The mutual reinsurer, MSLR, was the surviving entity following the 1982 merger; subsequent to the merger, the company changed its name to Wisconsin Reinsurance Corporation (Mutual) (WRC-Mutual). The company remained a mutual corporation for nine years following the merger, operating as an assessable mutual insurer through December 31, 1990.

During 1990 and 1991, WRC-Mutual demutualized and converted to a stock insurance company, pursuant to s. 611.76, Wis. Stat. The policyholders of WRC-Mutual were primarily town mutual insurance companies, which are subject to administrative restrictions regarding permitted investment in common stock assets. To enable the conversion of WRC-Mutual to a stock company and the issuance of WRC capital stock to town mutual policyholders of WRC-Mutual, this office issued an order that authorizes town mutual insurers to hold the common stock of the converted WRC-Mutual and to report the entire amount as admitted assets, subject to certain conditions and restrictions.

WRC-Mutual converted to a stock insurance company effective January 1, 1991. Upon conversion, WRC-Mutual’s December 31, 1990, surplus of $4,638,485 was distributed to its members by issuing 309,665 shares of Class A common capital stock having a book value of

$14.98 per share. The converted stock corporation amended its name to Wisconsin Reinsurance Corporation (WRC), the name presently used by the company. The company is owned by approximately 69 small mutual insurers domiciled in Wisconsin who are also long-term reinsurance clients of the company. A small number of shares are owned by about 450 natural persons who had purchased personal umbrella liability policies from the company in the five years prior to the conversion. There are no shareholders who own 10% or more of WRC stock.

During 1991, WRC obtained capital funds of $6,395,000 through the sale of Series A convertible preferred stock to WRC common stock shareholders, and used the proceeds to capitalize and incorporate 1st Auto & Casualty Insurance Company (1st Auto) as an insurance company subsidiary. 1st Auto commenced operations in September 1991. In 1997, WRC obtained an additional $3,225,000 of capital funds from the sale of Series B cumulative preferred stock to WRC common stock shareholders. The company contributed $2,000,000 of the proceeds from its 1997 preferred stock issuance to 1st Auto.

WRC is licensed in Wisconsin and Iowa and is recognized as an authorized reinsurer in South Dakota, North Dakota, Missouri, Illinois, and Arkansas. The company assumed the following premiums during 2014:

Wisconsin	$32,150,219	63.3%
Missouri	8,129,836	16.0
Iowa	6,696,754	13.2
South Dakota	2,414,160	4.8
Illinois	2,401,279	4.7
Arkansas	(970,965)	(1.9)
Total	$50,821,283	100.0%

WRC's primary business is the reinsurance of property and nonproperty liability risks written on a direct basis by small mutual insurance companies. The company's reinsurance clients are typically small insurers that write direct coverages primarily to rural and small town market segments and who focus on farmowner and homeowner property insurance business. The reinsurance products written by the company include pro rata quota share, surplus share, and excess of loss contracts on both property and casualty risks, as well as aggregate excess and catastrophe coverages. Business lines reinsured by the company include fire and allied lines, homeowner and farmowner, and limited commercial property and liability. WRC reinsurance products are marketed through the efforts of the company's reinsurance marketing representatives.

The company is subject to a regulatory accounting permitted practice established in 2000 with the approval of the Wisconsin Commissioner of Insurance. The permitted practice allows the company to delay recording a liability for "Reinsurance payable on paid losses" until a payable claim has been outstanding for 90 days, following notification of a loss from the ceding company. The practice allows such liability to remain in the company's "Loss reserve" account for the 90-day period. The practice was allowed by the Commissioner because WRC has manual loss reserve and reinsurance accounting systems. The company routinely pays such claims within 30 to 60 days, and, by virtue of the permitted practice, the company is spared having to review records in its manual reinsurance system and reclassify individual loss balances as "Reinsurance payable on paid losses."

The following table is a summary of the net insurance premiums written by the company in 2014. The growth of the company is discussed in the "Financial Data" section of this report.

Line of Business	Direct Premium	Reinsurance Assumed	Reinsurance Ceded	Net Premium
Fire*	$	$ 4,531,320	$ 1,115,217	$ 3,416,103
Allied lines*		4,531,320	1,115,217	3,416,103
Other liability – occurrence		197,953	158,615	39,338
Reinsurance – non-proportional assumed property		31,767,066	7,353,907	24,413,159
Reinsurance – non-proportional assumed liability		9,793,624	1,159,407	8,634,217
Total All Lines	$	$50,821,283	$10,902,363	$ 39,918,920

* WRC's policy for assumed proportional property coverage is divide premiums evenly between fire and allied lines.

III. MANAGEMENT AND CONTROL

Board of Directors

The board of directors consists of nine members. Three directors are elected annually to serve a three-year term. Officers are elected at the board's annual meeting. The Chairman of the board is paid an annual retainer fee of $15,000. All of the other board members are paid an annual retainer of $4,000. Directors receive a per diem of $300 for each board or committee meeting attended.

Currently the board of directors consists of the following persons:

Name and Residence	**Principal Occupation**	**Term Expires**
George Tipler, Chairman Oshkosh, Wisconsin	President/CEO of Homestead Mutual Ins. Co.	2019
Howard Schwartz Oshkosh, Wisconsin	President/CEO of Ellington Mutual Ins Co.	2018
James Viney Janesville, Wisconsin	President/CEO of Sugar Creek Mutual Ins. Co	2019
Ginger Baker Grantsburg, Wisconsin	Manager of Trade Lake Mutual Ins. Co.	2017
Bruce Thomas Algona, Iowa	Heartland Mutual Ins. Association	2018
Mark Splinter Wausau, Wisconsin	President/CEO of Mutual Ins. Co. of Wausau	2018
Lisa Johnson Sturtevant, Wisconsin	Manager/Director of Yorkville-Mt. Pleasant Mutual Ins. Co.	2019
Tony Wilke Loyal, Wisconsin	President of Little Black Mutual Ins. Co.	2017
Jeffrey Dusek River Falls, Wisconsin	Secretary/Treasurer/Manager of River Falls Mutual Ins. Co.	2017

Officers of the Company

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

Name	Office	2014 Compensation
Terry Wendorff	President and CEO	$417,862
Todd Lentz	Senior VP of Reinsurance	191,936
Cathleen McAnaugh	Senior VP	179,084
Ann Carlson	VP of Finance and Corp Treasurer	140,166
Larry Bray	VP of Mutual Assistance	139,642
Lisa Russell	General Counsel, VP of Claims and Corporate Secretary	138,921
Suma Elwell	VP of Organization Development and Strategic Planning	133,462
Lana Mueller	VP of Research and Product Development	124,524
Peggy Mickelson	VP of Administration, Executive Assistant and Assistant Corporate Secretary	119,220
Tracy Donohue	VP of Information Services	44,536*
George Tipler	Chairman of the Board	18,100
Michael Godby	Senior VP of Direct Operations	0**

* Tracy Donohue was hired in 2014, and the compensation shown represents a partial year.
** Michael Godby was hired in 2015, and he had no compensation during 2014.

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:

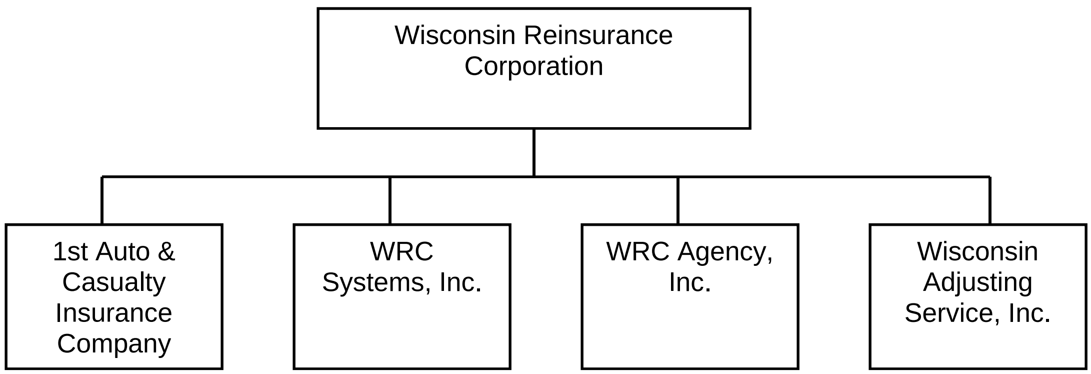
Nominating Committee
Jeffrey Dusek, Chair
Ginger Baker
Tony Wilke
George Tipler

Audit Committee
Entire Board

IV. AFFILIATED COMPANIES

Wisconsin Reinsurance Corporation is the ultimate parent of a holding company system. The organizational chart below depicts the relationships among the affiliates in the group. A brief description of the significant affiliates follows the organizational chart.

Organizational Chart
As of December 31, 2014



1st Auto & Casualty Insurance Company

1st Auto & Casualty Insurance Company is a Wisconsin-domiciled stock property and casualty insurer. 1st Auto is a direct writer of personal lines property and casualty insurance, primarily private passenger automobile liability and physical damage insurance, personal umbrella and commercial auto.

As of December 31, 2014, the statutory basis audited financial statements of 1st Auto reported net admitted assets of $29,977,405, liabilities of $18,539,186, and capital and surplus of $11,438,219. Operations for 2014 resulted in a net income of $(37,351). 1st Auto is the subject of a separate examination report concurrent with that of WRC.

WRC Systems, Inc. (Systems)

WRC Systems, Inc., had provided computer hardware, computer software, and system support services primarily to town mutual clients of WRC insurers. As of January 1, 2008, WRC Systems, Inc., effectively ceased operations and has been retained as a non-operating shell corporation. As of December 31, 2014, the unaudited GAAP-basis financial statement of Systems reported total assets of $0, liabilities of $0, and net equity of $0. Operations for 2014 show no activity.

WRC Agency, Inc. (Agency)

WRC Agency, Inc., provides insurance brokerage services through which agents of WRC client companies may place coverage for lines of insurance that the client companies are unable to offer as a direct insurer. As of December 31, 2014, the unaudited GAAP-basis financial statements of Agency reported total assets and total liabilities of $112,995 and net owner's equity of $0. Operations for 2014 resulted in net income of $0. Per the financial reimbursement agreement described below, reimbursements are made between WRC and Agency as necessary to bring the balance of owner's equity to $0.

Wisconsin Adjusting Service, Inc. (WASI)

Wisconsin Adjusting Service, Inc., provides loss adjustment services related to liability claims for WRC and its client companies. Services provided to WRC are provided pursuant to an administrative services agreement. As of December 31, 2014, the unaudited GAAP-basis financial statements of WASI reported total assets and total liabilities of $122,800 and net owner's equity of $0. Operations for 2014 resulted in net income of $0, as expenses of WASI were reimbursed by WRC, consistent with the administrative services agreement described below.

Agreements with Affiliates

Administrative Services Agreements

WRC maintains separate administrative services agreements with each of its active subsidiaries. Each agreement was executed December 1, 2012, except for the agreement with Agency which is effective February 1, 2014. All of the agreements are continuous with respect to automatic annual renewals. Pursuant to the agreements, WRC provides accounting, data processing, marketing, receptionist, secretarial, and all other administrative services necessary for the respective affiliates to conduct their normal business operations. WRC accounts for the time spent by its employees on behalf of the respective affiliates in providing administrative services. Postage, office supplies, copier charges, and outside accounting services are reimbursed at actual cost. Pursuant to the agreements, WRC costs allocated to the affiliates and WRC direct expenses on behalf of the respective affiliates are reimbursed by the affiliates. The intercompany amounts due shall be determined within 30 days of the end of the month, and final settlement of intercompany amounts is due within 90 days from the 27th of every month.

In addition to the above, the administrative services agreements between WRC and WASI and between WRC and Agency each provide that WRC will reimburse its subsidiary for all costs necessary to bring the equity position of the subsidiary equal to zero.

Financial Reimbursement Agreement

WRC and Agency are party to a continuous financial reimbursement agreement, executed February 1, 2014. Under the agreement, WRC and Agency will reimburse each other as necessary to bring the equity position of Agency equal to zero. Final settlement of intercompany amounts is due within 90 days from the 27th of every month.

Office Lease Agreements

WRC maintains separate office lease agreements with each of its active affiliates executed October 1, 2011. The agreements provide for lease of office space in the WRC headquarters building, and the agreements are identical except for their respective specifications of leased WRC space and applicable annual rents. Premises leased to the affiliates range from 464 square feet leased to Agency to 7,666 square feet leased to 1st Auto; annual rents range from $6,960 paid by Agency to $114,990 paid by 1st Auto. The agreements provide that WRC pays for maintenance and upkeep of the leased spaces and for utility services, excluding telephone.

Consolidated Federal Income Tax Agreement

WRC, 1st Auto, Agency, and WASI are party to a consolidated federal income tax agreement, executed February 1, 2014. The agreement provides that WRC will file a consolidated federal tax return for all parties to the agreement. The method used for allocation of federal taxes among the agreement participants is as prescribed by the Internal Revenue Service, and any regular tax liability of participants will be allocated based on the individual taxable income of each participant in proportion to the total consolidated taxable income. Final settlement of tax allocation is due by the respective participants within 90 days of the 27th day of the month of the filing of the consolidated federal tax return.

V. REINSURANCE

Wisconsin Reinsurance Corporation's reinsurance portfolio and strategy are described below. The company acquires all of its business through reinsurance assumption of risks written by unaffiliated mutual insurers and by the company's subsidiary, 1st Auto, and the company cedes portions of its written business to third-party reinsurers for risk management purposes and to mitigate risk in the event of catastrophic loss. The company's reinsurance contracts contain proper insolvency provisions.

Nonaffiliated Assumption Contracts

The following is a summary of the company's nonaffiliated assumption reinsurance contracts. The ceding insurers include town mutual, farm mutual, or unrestricted mutual insurance companies domiciled in Wisconsin, Arkansas, Illinois, Iowa, Missouri, and South Dakota. Unless otherwise noted, the reinsured company is a town mutual insurer, the effective date of the reinsurance agreement is January 1, 2015, and the agreement may be terminated by any January 1, by either party providing at least 90 days' prior written notice.

1.	Type:	Class A - 100% Quota Share Reinsurance Number of contracts: 27
	Scope:	All nonproperty business written by cedant(s)
	Coverage:	Applicable on each and every quota share loss, including loss adjustment expense, subject to town mutual policy maximums of $1,000,000 per occurrence, $25,000 per person medical, and $25,000 all persons medical
	Premium:	100% of net written premium
	Commissions:	Varies by contract, ranging from 15% to 25%
2.	Type:	Class A - Excess of Loss Reinsurance Number of contracts: 54
	Scope:	All nonproperty business written by cedant(s)
	Retention:	Varies by contract, generally ranging from $1,000 to $50,000 per occurrence
	Coverage:	100% each and every loss including loss adjustment expense in excess of the ceding company's retention, subject to town mutual policy maximums of $1,000,000 per occurrence, $25,000 per person medical, and $25,000 all persons medical

	Premium:	Varies by contract, generally ranging from 35% to 81% of premium written
3.	Type:	Class A - Umbrella Liability Combination Quota Share and Excess of Loss Number of contracts: 5
	Scope:	Umbrella liability
	Retention:	Part A - Up to 5% of the first $1,000,000 Part B - $1,000,000 per occurrence
	Coverage:	Part A - Up to 95% quota share of the first $1,000,000 Part B - Varies by contract, generally ranging from 100% of $1,000,000 in excess of Part A to $4,000,000 in excess of Part A
	Premium:	Based on quota share coverage, net of commission
4.	Type:	Class B - First Surplus Reinsurance Number of contracts: 61
	Scope:	All property business written by cedant(s)
	Retention:	Pro rata according to the individual risk cession, minimum retention varies by contract, generally with a range of $75,000 to $1,500,000
	Coverage:	Pro rata according to the individual risk cession; Automatic cession per risk of $2,000,000
	Premium:	Pro rata according to the individual risk cession, net of commission
	Commissions:	Annual profit commission based on a base rate and profitability
5.	Type:	Class B-2 - Quota Share Reinsurance Number of contracts: 1
	Scope:	All property business written by cedant(s)
	Retention:	Pro rata portion
	Coverage:	Pro rata portion
	Premium:	Varies by contract based on overall retention and loss history
	Commissions:	Flat rate, varies by contract
6.	Type:	Class C-1 - Excess of Loss First Layer Reinsurance Number of contracts: 92
	Scope:	All property business written by cedant(s)
	Retention:	Varies by contract. This contract and/or other Class C contracts reduce the ceding company's retention under the Class B – First Surplus contracts.

	Coverage:	100% of each loss in excess of the ceding company's retention up to maximums established by individual contracts
	Premium:	Experience based formula rated
7.	Type:	Class C-2 - Excess of Loss Second Layer Reinsurance Number of contracts: 87
	Scope:	All property business written by cedant(s)
	Retention:	Varies by contract. This contract and/or other Class C contracts reduce the ceding company's retention under the Class B – First Surplus contracts.
	Coverage:	100% of each loss in excess of the ceding company's retention up to maximums established by individual contracts
	Premium:	Flat rated based on coverage and overall WRC experience
8.	Type:	Class C-3 - Excess of Loss Third Layer Reinsurance Number of contracts: 31
	Scope:	All property business written by cedant(s)
	Retention:	Varies by contract. This contract and/or other Class C contracts reduce the ceding company's retention under the Class B – First Surplus contracts.
	Coverage:	100% of each loss in excess of the ceding company's retention up to maximums established by individual contracts
	Premium:	Flat rated based on coverage and overall WRC experience
9.	Type:	Class D/E-1 - First Layer Stop Loss Reinsurance Number of contracts: 93
	Scope:	Varies by contract. All contracts cover property business written by cedant(s). A majority of contracts also include nonproperty business.
	Retention:	Aggregate losses, expressed as a percentage of net premiums written, which varies by contract
	Coverage:	100% of the amount in excess of the above retention up to the next layer if any
	Premium:	Experience based formula rated
10.	Type:	Class D/E-2 - Second Layer Stop Loss Reinsurance Number of contracts: 86
	Scope:	Varies by contract. All contracts cover property business written by cedant(s). A majority of contracts also include nonproperty business.

	Retention:	Aggregate losses, expressed as a percentage of net premiums written, which varies by contract
	Coverage:	100% of the amount in excess of the above retention up to the next layer if any
	Premium:	Flat rated based on coverage and overall WRC experience
11.	Type:	Class D/E-3 - Third Layer Stop Loss Reinsurance Number of contracts: 1
	Scope:	All property and nonproperty business written by cedant
	Retention:	Aggregate losses, expressed as a percentage of net premiums written, which varies by contract
	Coverage:	100% of the amount in excess of the above retention
	Premium:	Flat rated based on coverage and overall WRC experience
12.	Type:	Class FXS - Facultative Excess of Loss Number of companies: 30
	Scope:	All farmowner's in excess of $350,000 up to $1,500,000 mutual policy limit depending on the underlying per risk limit of the reinsured
	Retention:	Per risk capacity
	Coverage:	100% of the policy limit in excess of the above retention
	Premium:	Flat rated table driven rate
13.	Type:	Excess of Loss Reinsurance
	Reinsured	Policyholders Mutual Insurance Company
	Participation:	Wisconsin Reinsurance Corporation 66.5% Grinnell Mutual Insurance Company 33.5%
	Scope:	Liability resulting from the Wisconsin Town Mutual Policyholder Protection Group Insurance Policy issued to members of The Wisconsin Association of Mutual Insurance Companies, Inc.
	Retention:	$1,000,000 of aggregate loss and loss adjustment expenses per contract year
	Coverage:	100% of aggregate losses in excess of $1,000,000, up to $5,000,000, each annual period
		In the event that a loss is paid under this contract, Policyholders Mutual Insurance Company shall repay the loss to the reinsurers plus interest at the prime rate plus 1.0%. Such repayment shall be made by payments in successive years immediately following the year in which the loss payment is made in amounts up to but not exceeding 2.0% of gross written premium of the mutual insurance

		company member of Policyholder Mutual Insurance Company for the preceding calendar year.
	Premium:	66.5% of $5,000
	Effective date:	January 1, 1989
	Termination:	As of any January 1, by either party giving 90 days' prior written notice
14.	Type:	Class CAT - First Catastrophe Excess of Loss Reinsurance Number of contracts: 3
	Scope:	All contracts cover property business written by cedant(s). Covers all property losses incurred within a 96-hour timeframe attributable from wind or hail storm losses.
	Retention:	Fixed dollar amount that varies by contract
	Coverage:	100% of the amount in excess of the above retention up to the next layer if any
	Premium:	Flat rated based on coverage and overall WRC experience
15.	Type:	Reinsurance Quota Share Facility (the Pool)
	Reinsured:	NAMIC Insurance Company, Inc. (NAMICO)
	Scope:	Business classified by the company as directors and officers liability, professional liability, errors and omissions liability including insurance-related entities, trustees and fiduciaries liability, cyber liability, and employers practices liability
	Retention:	NAMICO retains 50% of the first $1,000,000 of each and every loss and 15% of the next $4,000,000 of each and every loss and in the aggregate in excess of $1,000,000 where applicable
	Coverage:	0.966659% of (50% of the first $1,000,000 of each and every loss and 85% of the next $4,000,000 of each and every loss). Company's maximum aggregate share not to exceed 1.933319% of the Pool, subject to reallocation by the loss of another retrocessionaire due to insolvency.
	Premium:	0.966659% of net written premium
	Commissions:	35% of ceded premium
	Effective date:	January 1, 2015
	Termination:	12-month term policy, cannot be terminated unless caused by insolvency

Affiliated Assumption Contracts

The following is a summary of the company's affiliated assumption reinsurance contracts with its subsidiary, 1st Auto & Casualty Insurance Company. The company provides excess of loss coverage for auto liability and auto physical damage business written by 1st Auto as a way of providing capital support to its subsidiary.

1.	Type:	Automobile Aggregate Excess of Loss Reinsurance
	Reinsured:	1st Auto & Casualty Insurance Company
	Scope:	The excess liability under policies issued by 1st Auto for business classified as automobile, umbrella, and personal liability insurance
	Retention:	Ultimate net loss equal to 62.5% of 1st Auto's net earned premium for the calendar year, plus 5% of 20.0% in excess of 62.5%
	Coverage:	Ultimate net loss for the calendar year in excess of 62.5% of 1st Auto's net earned premium for the calendar year, reinsurer's liability limited to 95% of 20.0% of 1st Auto's net earned premium in the calendar year
	Warranty:	Reinsured warrants that maximum policy limits are $1,000,000 bodily injury liability each person, $1,000,000 each occurrence, and $500,000 property damage liability each occurrence. Reinsured warrants for umbrella liability policies that it shall maintain 85% quota share reinsurance on risks up to $1,000,000 and a 100% quota share reinsurance on risks in excess of $1,000,000 up to $5,000,000. Reinsured warrants for personal lines liability policies it will maintain a 100% quota share reinsurance on all risks. Reinsured warrants for auto liability it shall maintain an excess of loss program providing $700,000 of limit in excess of $300,000 retention. Reinsured warrants for auto physical damage catastrophe reinsurance that it shall maintain an excess of loss program providing $1,200,000 of limit in excess of $300,000 retention.
	Premium:	For the calendar year, the greater of $419,200 or 2.25% of net earned premium for the subject business in the calendar year, annual deposit premium $524,000
	Effective date:	January 1, 2015
	Termination:	As of any December 31, by either party giving 90 days' prior notice
2.	Type:	Personal Liability Quota Share Reinsurance
	Reinsured:	1st Auto & Casualty Insurance Company
	Scope:	All policies issued by 1st Auto for business classified as personal liability insurance
	Coverage:	100% each and every loss, including loss adjustment expense
	Premium:	100% of net written premium
	Commissions:	32.5% of ceded premium
	Effective date:	January 1, 2015

	Termination:	As of any December 31, by either party giving 90 days' prior notice
3.	Type:	Auto Physical Damage Catastrophe Excess Reinsurance
	Reinsured:	1st Auto & Casualty Insurance Company
	Scope:	The excess liability under policies issued by 1st Auto for business classified as automobile physical damage insurance
	Retention:	\$300,000 of ultimate net loss liability each loss occurrence, plus 2.5% of the excess up to \$1,200,000
	Coverage:	97.5% of ultimate net loss in excess of \$300,000 each loss occurrence; reinsurer liability limited to 97.5% of \$1,200,000 each loss occurrence. In the event that all or any portion of the reinsurance provided under this agreement is exhausted by loss, the amount so exhausted will be reinstated immediately from the time the loss occurrence commences under this treaty. Maximum of two reinstatements; reinsurer liability limited to a maximum of 97.5% of \$3,600,000 in all during any one calendar year.
	Premium:	For the calendar year, the greater of \$157,600 or 1.75% of net earned premium on subject business; deposit premium of \$197,000
	Effective date:	January 1, 2015
	Termination:	As of any December 31, by either party giving 90 days' prior notice

Nonaffiliated Ceding Contracts

The following is a summary of the company's nonaffiliated ceding reinsurance contracts. The company cedes portions of its written business to third-party reinsurers for risk management purposes and to mitigate risk in the event of catastrophic loss.

1.	Type:	First Multiple Line Excess of Loss Reinsurance	
	Reinsurers:	Platinum Underwriters Reinsurance, Inc.	40.0%
		QBE Reinsurance Corporation	17.5
		Catlin Syndicate 2003 - SJC	17.5
		The Toa Reinsurance Company of America	25.0
		Total	100.00%
	Reinsured:	Wisconsin Reinsurance Corporation and 1st Auto & Casualty Insurance Company	
	Scope:	Business classified by the company as property reinsurance assumed by the company for Class B – Pro Rata and Class C – Excess Per Risk, business classified by the company as casualty reinsurance assumed for Class A – Casualty, and personal and farm liability business assumed from 1st Auto. The agreement also covers net umbrella risks assumed by WRC.	

With respect to 1st Auto, the contract also includes business classified by the company as net retained umbrella liability business, and automobile liability business written directly by 1st Auto.

First Layer:

Retention:

A. Property
100% of $300,000 ultimate net loss each risk, each loss

B. Casualty
100% of $300,000 ultimate net loss each loss occurrence

C. Combined property, casualty, and net umbrella
100% of $300,000 loss liability for combined coverages each loss occurrence. For losses involving coverages of A and/or B, recoveries made under these coverages will inure to the benefit of the reinsurance provided under C.

Coverage:

A. Property
100% of $700,000 excess of $300,000 ultimate net loss each risk, each loss. Reinsurance limit $2,100,000 any one loss occurrence.

B. Casualty
100% of $700,000 excess of $300,000 ultimate net loss each loss occurrence

C. Combined property, casualty, and net umbrella
100% of $300,000 excess of $300,000 ultimate net loss liability each loss occurrence for combined coverages

Warranty: The company warrants that it will maintain an 85% quota share reinsurance of the first $1,000,000 and a 100% quota share reinsurance of the next $4,000,000 contract per policy for umbrella liability and that such reinsurance shall inure to the benefit of the first multiple line excess of loss reinsurer.

Annual deductible: The company retains the first $1,000,000 of otherwise collectible losses in the form of an Annual Aggregate Deductible

Premium: 3.55% of net earned premium. Minimum annual premium $1,440,000, annual deposit premium $1,794,700. Year-end adjustment within 60 days of the end of the agreement year.

Second Layer:

Retention:

A. Property
100% of $1,000,000 ultimate net loss each risk, each loss

B. Casualty
100% of $1,000,000 ultimate net loss each loss occurrence

Coverage: A. Property
100% of $1,500,000 excess of $1,000,000 ultimate net loss each risk, each loss and $3,000,000 in all respects all risks involved in any one occurrence. Reinsurance limit $6,000,000 in all during the term of the contract.

B. Casualty
100% of $1,000,000 excess of $1,000,000 ultimate net loss each loss occurrence and $3,000,000 in all during the term of the contract. Two reinstatements available, first one is free and the second is for additional premium payment of $75,000 times the percentage of the occurrence limit for the coverage reinstated.

Warranty: The company warrants that it will maintain an 85% quota share reinsurance of the first $1,000,000 and a 100% quota share reinsurance of the next $4,000,000 contract per policy for umbrella liability and that such reinsurance shall inure to the benefit of the second multiple line excess of loss reinsurer

Premium: 0.43% of net earned premium. Minimum annual premium $173,920, annual deposit premium $217,400. Year-end adjustment within 60 days of the end of the agreement year.

Effective date: January 1, 2015

Termination: January 1, 2016

2. Type: Excess Casualty Clash Reinsurance

Reinsurers:

Aspen Insurance UK Limited	33.33%
Lloyd's Underwriters, London, Syndicate 0609-ATR	33.34
Lloyd's Underwriters, London, Syndicate 958-CNP	6.67
Lloyd's Underwriters, London, Syndicate 4444-CNP	26.66
Total	100.00%

Reinsured: Wisconsin Reinsurance Corporation and 1st Auto & Casualty Insurance Company

Scope: Business classified by the company as casualty reinsurance assumed for Class A – Casualty, umbrella liability assumed, and farm liability and personal liability business assumed from 1st Auto

With respect to 1st Auto, the contract also includes business classified by the company as umbrella liability and automobile liability business written directly by 1st Auto

Retention: 100% of $2,000,000 ultimate net loss each occurrence

Coverage: 100% of $3,000,000 excess of $2,000,000 ultimate net loss each occurrence. Reinsurance limit $6,000,000 in all during the term of the contract.

Warranty:	The company's maximum policy limits for all lines of business covered under this reinsurance contract except umbrella liability is $1,000,000 The company warrants that the maximum policy limit for umbrella liability shall be $5,000,000 and that it will maintain an 85% quota share reinsurance of the first $1,000,000 and a 100% quota share reinsurance of the next $4,000,000 contract per policy for umbrella liability with such reinsurance shall inure to the benefit of the excess casualty clash reinsurer
Premium:	Annual premium $122,500
Reinstatement:	One at prorated 100% additional premium
Effective date:	January 1, 2015
Termination:	January 1, 2016

3. Type: Umbrella Liability Quota Share Reinsurance

Reinsurers:

Platinum Underwriters Reinsurance, Inc.	40.0%
QBE Reinsurance Corporation	17.5
Catlin Syndicate 2003 - SJC	17.5
The Toa Reinsurance Company of America	25.0
Total	100.0%

Reinsured:	Wisconsin Reinsurance Corporation and 1st Auto & Casualty Insurance Company
Scope:	Business classified by the company as personal and commercial umbrella liability as written on a direct basis by 1st Auto & Casualty Insurance Company or assumed under reinsurance contracts written by and on behalf of Wisconsin Reinsurance Corporation
Retention:	15% quota share of loss liability any one umbrella policy, applicable for maximum umbrella coverage risk of $1,000,000. Company retains 15% quota share of loss liability on $1,000,000 of insured umbrella coverage risk any one loss occurrence.
Coverage:	Part 1 85% quota share of loss liability any one umbrella policy, applicable for maximum umbrella coverage risk of $1,000,000. Reinsurer covers 85% quota share of loss liability on first $1,000,000 of insured umbrella coverage risk for any one loss occurrence, maximum reinsurer liability $850,000 any one occurrence. Part 2 100% of $4,000,000 excess of $1,000,000 ultimate net loss any one umbrella policy and covers 100% of up to the next $4,000,000 for any one loss occurrence, maximum reinsurer liability $4,000,000 any one occurrence

Premium:	Part 1 85% of the gross original premium for umbrella business applicable to the first $1,000,000 of liability covered Part 2 100% of the gross original premium for umbrella business applicable to limits of liability over $1,000,000, always subject to reinsurer's limit of liability of $4,000,000
Commissions:	33.0% commission on the net premium ceded or paid
Effective date:	January 1, 2015
Termination:	January 1, 2016
Warranties:	The company warrants that it will require the following minimum underlying policy limits:

Personal Auto	$300,000/$300,000/$100,000 or $250,000/$500,000/$100,000
CPL or FCPL	$300,000 CSL or $500,000 CSL
Recreational Vehicles	$300,000/$300,000/$100,000 or $250,000/$500,000/$100,000 or $300,000 CSL or $500,000 CSL
Commercial Auto	$500,000 CSL
Commercial Liability	$500,000 CSL

The company warrants that the maximum policy limits for umbrella policies issued by the company shall be $5,000,000

The company warrants that the premiums charged for umbrella policies issued will not be prorated or reduced below the minimum annual premium established by the company's umbrella underwriting guidelines

4.	Type:	Property Automatic Facultative Reinsurance Agreement	
	Reinsurers:	Catlin Syndicate 2003	100.00%
	Reinsured:	Wisconsin Reinsurance Corporation	
	Scope:	Business classified by the company as property reinsurance	
	Retention:	100% of $2,500,000 ultimate net loss each occurrence	
	Coverage:	100% of $7,500,000 any one risk, each loss excess of $2,500,000 any one risk, each loss. Reinsurance limit $7,500,000 all risks any one loss occurrence. Special acceptance is available upon request of the reinsurer by the company.	
	Warranty:	Company shall be permitted to maintain in force underlying excess reinsurance recoveries which shall inure solely to the benefit of the	

	company and shall be entirely disregarded in applying the provisions of this agreement
Premium:	First $2,500,000 of coverage: $400 per million ceded/each risk Next $2,500,000 of coverage: $500 per million ceded/each risk Next $2,500,000 of coverage: $650 per million ceded/each risk
Effective date:	February 15, 2012
Termination:	Continuous subject to termination provision of 90-day notice by either party

5. Type: Catastrophe Excess of Loss Reinsurance

Reinsurers:	See Addendum for excess layers and reinsurer participation
Reinsured:	Wisconsin Reinsurance Corporation and 1st Auto & Casualty Insurance Company
Scope:	Business classified by the company as property reinsurance assumed by the company. Business consists of homeowner's, farmowner's, fire and allied lines, and light commercial policies including earthquake, issued by Wisconsin town mutual companies and other mutual and farm mutual insurance companies as agreed by the reinsurer. The agreement also includes property business produced by 1st Auto and assumed by WRC through internal reinsurance agreements as well as the underlying retention of 1st Auto for said event
Company retention:	100% of the ultimate net loss each occurrence as shown below

	First Excess	**Second Excess**	**Third Excess**
Company retention	$2,750,000	$10,000,000	$20,000,000
Reinsurer's limit Per occurrence	7,250,000	10,000,000	60,000,000
Reinsurer's annual limit	14,500,000	20,000,000	120,000,000
Contract term Minimum premium	1,682,000	760,000	1,176,000
Premium rate	4.93%	2.23%	3.45%
Contract term Deposit premium	2,102,500	950,000	1,470,000
Quarterly deposit premium	525,625	237,500	367,500

Warranty:	Company shall maintain in force treaty multiple line reinsurance, recoveries under which shall inure to the benefit of this agreement
Reinstatement:	All layers are subject to one full reinstatement at pro rata additional premium as to amount reinstated

	Effective date:	January 1, 2015
	Termination:	January 1, 2016
6.	Type:	Aggregate Catastrophe Excess of Loss Reinsurance
	Reinsurers:	See Addendum for excess layer reinsurer participation
	Reinsured:	Wisconsin Reinsurance Corporation and 1st Auto & Casualty Insurance Company
	Scope:	Business classified by the company as property reinsurance assumed by the company. Business consists of homeowner's, farmowner's, fire and allied lines, and light commercial policies including earthquake, issued by Wisconsin town mutual companies and other mutual and farm mutual insurance companies as agreed by the reinsurer. The agreement also includes property business produced by 1st Auto and assumed by WRC through internal reinsurance agreements as well as the underlying retention of 1st Auto for said event
	Retention:	100% of $6,000,000 aggregate ultimate net loss for term of contract
	Coverage:	100% of $9,000,000 excess $6,000,000 ultimate net loss for term of contract. Losses arising out of a given loss occurrence may not contribute to the ultimate net loss unless the company's total losses arising out of the loss occurrence exceed $750,000.
	Warranty:	The company shall maintain in force catastrophe excess of loss reinsurance providing coverage of 100% of $77,250,000 excess $2,750,000 per occurrence and of 100% of $154,500,000 annually
	Premium:	4.91% of net earned premium. Minimum annual premium $1,674,000, annual deposit premium $2,092,500.
	Effective date:	January 1, 2015
	Termination:	January 1, 2016
7.	Type:	Earthquake Quota Share Retrocession Reinsurance
	Reinsurers:	Palomar Specialty Insurance Company
	Reinsured:	Wisconsin Reinsurance Corporation
	Scope:	Business classified by the company as property reinsurance assumed by the company. Business consists of homeowner's, farmowner's, fire and allied lines, and light commercial policies which are endorsed for earthquake, issued by mutual and farm mutual insurance companies as agreed by the reinsurer. The agreement also includes property business produced by 1st Auto and assumed by WRC through internal reinsurance agreements

Coverage:	100% each and every loss, including loss adjustment expense
Premium:	100% of gross net written premium
Commissions:	18.5% of ceded premium
Effective date:	December 31, 2015
Termination:	As of any January 1, by either party giving 90 days' prior notice

VI. FINANCIAL DATA

The following financial statements reflect the financial condition of the company as reported to the Commissioner of Insurance in the December 31, 2014, annual statement. Adjustments made as a result of the examination are noted at the end of this section in the area captioned "Reconciliation of Surplus per Examination." Also included in this section are schedules that reflect the growth of the company, NAIC Insurance Regulatory Information System (IRIS) ratio results for the period under examination, and the compulsory and security surplus calculation.

Wisconsin Reinsurance Corporation
Assets
As of December 31, 2014

	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	$45,169,314	$	$45,169,314
Stocks:			
Preferred stocks	5,100		5,100
Common stocks	16,920,478		16,920,478
Mortgage loans on real estate:			
Real estate:			
Occupied by the company	4,069,233		4,069,233
Cash, cash equivalents, and short-term investments	7,866,102		7,866,102
Subtotals, cash and invested assets	74,030,227		74,030,227
Investment income due and accrued	381,481		381,481
Premiums and considerations:			
Uncollected premiums and agents' balances in course of collection	3,158,238		3,158,238
Deferred premiums, agents' balances, and installments booked but deferred and not yet due	1,230,434		1,230,434
Reinsurance:			
Amounts recoverable from reinsurers	1,712,800		1,712,800
Current federal and foreign income tax recoverable and interest thereon	178,657		178,657
Net deferred tax asset	1,375,297		1,375,297
Electronic data processing equipment and software	291,590	193,917	97,673
Furniture and equipment, including health care delivery assets	663,586	663,586	0
Receivable from parent, subsidiaries, and affiliates	1,548,253		1,548,253
Write-ins for other than invested assets:	508,235	117,281	390,954
Total assets excluding separate accounts, segregated accounts and protected cell assets	85,078,798	974,784	84,104,014
Total Assets	$85,078,798	$974,784	$84,104,014

Wisconsin Reinsurance Corporation
Liabilities, Surplus, and Other Funds
As of December 31, 2014

Losses		$26,702,280
Loss adjustment expenses		7,028,714
Other expenses (excluding taxes, licenses, and fees)		96,401
Taxes, licenses, and fees (excluding federal and foreign income taxes)		75,875
Unearned premiums (after deducting unearned premiums for ceded reinsurance of $86,000)		6,413,304
Ceded reinsurance premiums payable (net of ceding commissions)		(191,380)
Provision for reinsurance		140,000
Payable to parent, subsidiaries, and affiliates		1,303,349
Total liabilities		41,568,543
Common capital stock	$ 413,275	
Preferred capital stock	6,014	
Gross paid in and contributed surplus	14,039,038	
Unassigned funds (surplus)	29,356,730	
Less treasury stock, at cost:		
Common	1,119,586	
Preferred	160,000	
Surplus as regards policyholders		42,535,471
Total Liabilities and Surplus		$84,104,014

Wisconsin Reinsurance Corporation
Summary of Operations
For the Year 2014

Underwriting Income		
Premiums earned		$42,485,577
Deductions:		
Losses incurred	$25,539,490	
Loss adjustment expenses incurred	5,101,527	
Other underwriting expenses incurred	7,340,712	
Total underwriting deductions		37,981,729
Net underwriting gain (loss)		4,503,848
Investment Income		
Net investment income earned	1,050,722	
Net realized capital gains (losses)	492,702	
Net investment gain (loss)		1,543,424
Other Income		
Write-ins for miscellaneous income:	482,436	
Total other income		482,436
Net income (loss) before dividends to policyholders and before federal and foreign income taxes		6,529,708
Net income (loss) after dividends to policyholders but before federal and foreign income taxes		6,529,708
Federal and foreign income taxes incurred		2,003,451
Net Income		$ 4,526,257

Wisconsin Reinsurance Corporation
Cash Flow
For the Year 2014

Premiums collected net of reinsurance			$39,488,358
Net investment income			1,589,746
Miscellaneous income			482,436
Total			41,560,540
Benefit- and loss-related payments		$29,451,068	
Commissions, expenses paid, and aggregate write-ins for deductions		11,507,622	
Federal and foreign income taxes paid (recovered)		2,182,108	
Total deductions			43,140,798
Net cash from operations			(1,580,258)
Proceeds from investments sold, matured, or repaid:			
Bonds	$14,637,055		
Stocks	1,546,299		
Total investment proceeds		16,183,354	
Cost of investments acquired (long-term only):			
Bonds	15,341,358		
Stocks	864,373		
Total investments acquired		16,205,730	
Net cash from investments			(22,376)
Cash from financing and miscellaneous sources:			
Capital and paid in surplus less treasury stock		(4,849)	
Dividends to stockholders		802,132	
Other cash provided (applied)		(639,633)	
Net cash from financing and miscellaneous sources			(1,446,614)
Reconciliation:			
Net change in cash, cash equivalents, and short-term investments			(3,049,248)
Cash, cash equivalents, and short-term investments:			
Beginning of year			10,915,350
End of Year			$ 7,866,102

Wisconsin Reinsurance Corporation
Compulsory and Security Surplus Calculation
December 31, 2014

Assets		$84,104,014
Less investment in insurance subsidiaries		11,438,219
Add security surplus excess of insurance subsidiaries		5,589,068
Less liabilities		41,568,543
Adjusted surplus		36,686,320
Annual premium:		
Lines other than accident and health	$41,918,919	
Factor	20%	
Compulsory surplus (subject to a minimum of $2 million)		8,383,783
Compulsory Surplus Excess (or Deficit)		$28,302,537
Adjusted surplus (from above)		$36,686,320
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%)		11,737,296
Security Surplus Excess (or Deficit)		$24,949,024

Wisconsin Reinsurance Corporation
Analysis of Surplus
For the Four-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**
Surplus, beginning of year	$38,971,078	$28,517,959	$27,858,367	$35,334,629
Net income	4,526,257	7,236,224	2,134,009	(5,805,550)
Change in net unrealized capital gains/losses	(242,336)	2,416,388	(1,492,328)	(1,965,539)
Change in net deferred income tax	(253,814)	(1,734,410)	(403,034)	2,010,357
Change in non-admitted assets	481,267	2,794,225	654,477	(1,633,072)
Change in provision for reinsurance	(140,000)	7,600	20,400	(28,000)
Change in surplus notes				
Capital changes:				
Paid in		1,486		169,840
Transferred to surplus		(167,656)		
Surplus adjustments:				
Paid in		166,170		
Dividends to stockholders	(802,132)	(265,421)	(223,300)	(223,300)
Change in treasury stock	(4,849)	(1,487)	(30,632)	(998)
Surplus, End of Year	$42,535,471	$38,971,078	$28,517,959	$27,858,367

Wisconsin Reinsurance Corporation
Insurance Regulatory Information System
For the Four-Year Period Ending December 31, 2014

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

	Ratio	2014	2013	2012	2011
#1	Gross Premium to Surplus	119%	150%	187%	162%
#2	Net Premium to Surplus	94	127	154	134
#3	Change in Net Premiums Written	(19)	13	18	3
#4	Surplus Aid to Surplus	0	0	0	0
#5	Two-Year Overall Operating Ratio	86	89	104*	108*
#6	Investment Yield	1.4*	1.4*	1.6*	1.9*
#7	Gross Change in Surplus	9	37	2	(21)*
#8	Change in Adjusted Surplus	9	37*	2	(22)*
#9	Liabilities to Liquid Assets	68	72	83	94
#10	Agents' Balances to Surplus	7	8	15	12
#11	One-Year Reserve Development to Surplus	(8)	(3)	(2)	(5)
#12	Two-Year Reserve Development to Surplus	(2)	0	(8)	(6)
#13	Estimated Current Reserve Deficiency to Surplus	(13)	(1)	5	(1)

IRIS ratio #5, Two-Year Overall Operating Ratio, is a measure of the profitability of an insurance company. The company's unusual results in 2011 and 2012 are primarily due to a combination of an increased expense ratio and loss ratio and decreased investment ratio in comparison to other years. The expense and loss ratio results are included in the table in the following section and investment yield is addressed in comments explaining the following IRIS ratios.

IRIS ratio #6, Investment Yield, evaluates the percentage of annual income on the insurer's investment portfolio. The company's unusual results were due to the company having a substantial portion of its assets invested in its subsidiary insurer, 1st Auto & Casualty Insurance Company. 1st Auto did not pay dividends during the examination period, and its operating income was used to support premium growth and to build surplus during the four-year period. As of year-end 2014, WRC's investment in 1st Auto was valued at $11.4 million and equaled approximately 15% of WRC's total invested assets. Additionally, the majority of the company's holdings are fixed-income government securities which have provided low yields as a result of a lower interest rate environment.

IRIS ratios #7 and #8, Gross Change in Surplus and Net Change in Adjusted Surplus, respectively, each provide a measure of improvement or deterioration in the insurer's financial condition during the year. The company's unusual results in 2011 were primarily due to several wind storms which negatively impacted the company's underwriting results and, to a lesser extent, by decreasing investment gains. The company's unusual result for ratio #8 in 2013 was primarily due to higher net underwriting and investment gains than other years during the examination period, in combination with an increase in affiliated stock of 1st Auto and an increased deferred tax asset.

Growth of Wisconsin Reinsurance Corporation

Year	Admitted Assets	Liabilities	Surplus as Regards Policyholders	Net Income
2014	$84,104,014	$41,568,543	$42,535,471	$ 4,526,257
2013	84,671,490	45,700,412	38,971,078	7,236,224
2012	67,601,527	39,083,568	28,517,959	2,134,009
2011	63,891,283	36,032,916	27,858,367	(5,805,550)
2010	71,088,354	35,753,726	35,334,628	(411,127)

Year	Gross Premium Written	Net Premium Written	Premium Earned	Loss and LAE Ratio	Expense Ratio	Combined Ratio
2014	$50,821,283	$39,918,920	$42,485,577	72.1%	17.2%	89.3%
2013	58,615,393	49,511,548	48,937,641	69.0	17.9	86.9
2012	53,385,276	43,992,792	42,300,181	75.4	20.0	95.4
2011	45,126,828	37,197,888	36,641,574	99.7	19.6	119.3
2010	42,712,394	36,077,725	35,703,692	86.0	19.4	105.4

During the period under examination, the company's admitted assets increased 18.3% and liabilities increased 16.3%, resulting in a 20.4% increase to surplus. Net income fluctuated throughout the four-year examination period with a low in 2011 due to several large wind storms that year combined with decreasing returns on fixed and affiliated investments. The company returned to positive results in 2012 and has had net income over the past three years.

Gross premiums, net premiums, and premiums earned increased each year during the examination period until 2014. Premiums decreased in 2014 as the company chose to nonrenew one large client. After large losses in 2011, which resulted in the highest combined ratio during the four-year period, the company's results have improved and WRC has been profitable from 2012 through 2014. The loss and LAE ratio, expense ratio and combined ratio fluctuated during the examination period primarily for reasons noted in the preceding paragraph.

Reconciliation of Surplus per Examination

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

VII. SUMMARY OF EXAMINATION RESULTS

Compliance with Prior Examination Report Recommendations

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

1. Disaster Recovery Plan—It is again recommended that the company periodically test the user department's portion of its disaster recovery plan.

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

2. Engagement Letter Clauses—It is recommended that the company comply with s. Ins 50.08 (1) (am), Wis. Adm. Code, regarding indemnification clauses in the audit agreements with its accounting firm.

   Action—Compliance

3. Non-Audit Services—It is recommended that the company's audit committee preapprove non-audit services in accordance with s. Ins 50.08 (4), Wis. Adm. Code.

   Action—Compliance

4. Reinsurance Intermediary Agreement—It is recommended that the company obtain a written agreement with its reinsurance intermediary in accordance with s. Ins 47.03, Wis. Adm. Code.

   Action—Compliance

5. Affiliated Agreements—It is recommended that the company revise its service agreements to include a definite settlement date in accordance with Statutory Accounting Principle (SSAP) No. 96 of the NAIC Accounting Practices and Procedures Manual.

   Action—Compliance

6. Financial Reporting—It is recommended that the company complete Schedule P-Part 6 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.

Disaster Recovery Plan

The company has established contingency planning for the restoration of company data records and the resumption of company business operations in the event of business interruption. The examination determined that there were deficiencies in the company's testing of its disaster recovery plan. Since the prior examination, the company performed a walkthrough to update its plan; however, actual scenario testing of functional units to test the accuracy and adequacy of the disaster recovery plan was not evidenced. The walkthrough provides less of a benefit in the event of an actual disaster. The company is in partial compliance with the previous recommendation. It is again recommended that the company periodically test the user department's portion of its disaster recovery plan.

Custodial Agreement

The custodial agreement was reviewed to verify it met the applicable statutory requirements and the guidelines for custodial agreements contained in the NAIC Financial Condition Examiners Handbook. The following issues were noted as a result of the review:

1. There is no language expressing that the company's securities are separated from other clients' securities.
2. The agreement does not state the method in which the custodian would replace the securities or the value of the securities if the custodian is determined to be liable for a loss of the securities.
3. The agreement does not state that in the event the custodian uses an agent or sub-agent the agent should be subject to the same liability for loss of securities as the custodian.

It is recommended that the company amend its custodial agreement to include specific language prescribed in the NAIC Financial Condition Examiners Handbook.

Executive Compensation

During review of the Report of Executive Compensation and company documents, it was noted that 401(k) contributions and health and life insurance premiums paid by the employer were not included as compensation in the “All Other Compensation” category of the report. It is recommended that the company include all gross direct and indirect compensation paid or accrued during the year on its Report of Executive Compensation in accordance with ss. 601.42 and 611.62 (4), Wis. Stat.

Holding Company Filing

Upon review of the affiliated agreements and related filings with this office, the examination team found the Form B filings did not contain sufficient detail, such as a short narrative description, to determine if all affiliated agreements in force had been received. The description of each agreement should include at least the nature and purpose of the transaction, the nature and amounts of any payments or transfer of assets between parties, the identity of all parties to the transaction, and the relationship of the affiliates to the registrant. It is recommended that the company include sufficient detail in their Form B filings to comply with ss. Ins. 40.03 and 40.15, Wis. Adm. Code.

VIII. CONCLUSION

Wisconsin Reinsurance Corporation is a Wisconsin-domiciled property and casualty insurer. Effective January 1, 1991, the company converted to a stock insurance company as permitted under s. 611.76, Wis. Stat. WRC organized and incorporated 1st Auto & Casualty Insurance Company as a wholly owned operating insurance subsidiary in 1991.

The company's primary business is the provision of various programs of property and liability reinsurance on risks written by small mutual property and casualty insurers. The company also reinsures a portion of business written by its subsidiary, 1st Auto, comprised primarily of personal lines automobile insurance coverages.

During the period under examination, the company's admitted assets increased 18.3% and liabilities increased 16.3%, resulting in a 20.4% increase to surplus. Net income fluctuated throughout the four-year examination period with a low in 2011 due to several large wind storms that year combined with decreasing returns on fixed and affiliated investments. The company returned to positive results in 2012 and has had net income over the past three years.

Gross premiums, net premiums, and premiums earned increased each year during the examination period until 2014. Premiums decreased in 2014 as the company chose to nonrenew one large client. After large losses in 2011, which resulted in the highest combined ratio during the four-year period, the company's results have improved and WRC has been profitable from 2012 through 2014. The loss and LAE ratio, expense ratio and combined ratio fluctuated during the examination period primarily for reasons noted in the preceding paragraph.

The current examination resulted in no adjustments to surplus or reclassifications of account balances. The examination determined that the company was in full compliance with five of the six recommendations made by the previous examination and in partial compliance of the other one. The current examination resulted in four recommendations. The examination determined that, as of December 31, 2014, the company had total admitted assets of $84,104,014, total liabilities of $41,568,543, and policyholders' surplus of $42,535,471.

IX. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 36 - Disaster Recovery Plan—It is again recommended that the company periodically test the user department's portion of its disaster recovery plan.

2. Page 36 - Custodial Agreement—It is recommended that the company amend its custodial agreement to include specific language prescribed in the NAIC Financial Condition Examiners Handbook.

3. Page 37 - Executive Compensation—It is recommended that the company include all gross direct and indirect compensation paid or accrued during the year on its Report of Executive Compensation in accordance with ss. 601.42 and 611.62 (4), Wis. Stat.

4. Page 37 - Holding Company Filing—It is recommended that the company include sufficient detail in their Form B filings to comply with ss. Ins. 40.03 and 40.15, Wis. Adm. Code.

X. SUBSEQUENT EVENTS

At the company’s November 2015 board meeting, the board of directors voted to proceed with redemption of 10% of WRC Series B preferred stock to take place throughout 2016. The estimated cost of the buyback is $322,000 as noted in the company’s financial statements as of December 31, 2015.

XI. 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
Xiaozhou Ye	Insurance Financial Examiner
Randy Milquet	ACL Specialist
David Jensen	IT Specialist
Jerry DeArmond	Reserve Specialist

Respectfully submitted,

Karl Albert, CFE
Examiner-in-Charge

XII. ADDENDUM

Catastrophe Excess of Loss Reinsurance

First Layer

	Assuming Company	Percentage	
Domestic			
	American Agricultural Insurance Company	1.50 %	
	Munich Reinsurance America, Inc.	15.00	
	Platinum Underwriters Reinsurance, Inc.	6.00	
	The Toa Reinsurance Company of America	4.00	
	QBE Reinsurance Corporation	5.00	
	Subtotal – Domestic		31.50 %
International Placements - Lloyd's			
	Lloyd's Underwriters, London as follows:		
	Syndicate 0435-FDY	18.00 %	
	Syndicate 0609-AUW	0.50	
	Syndicate 623/2623-AFB	2.50	
	Syndicate 1084-CSL	2.50	
	Syndicate 2010-MMX	10.00	
	Syndicate 2791-MAP	2.50	
	Syndicate 4000-PEM	7.50	
	Subtotal – Lloyd's		43.50 %
Other International Placements			
	Hannover Re Ltd. (Bermuda)	2.00 %	
	Sirius International Insurance Corp. (Sweden)	5.00	
	R+V Versicherung AG (Germany)	18.00	
	Subtotal – Other		25.00 %
	Total Placements		100.00 %

Catastrophe Excess of Loss Reinsurance

Second Layer

	Assuming Company	Percentage	
Domestic			
	American Agricultural Insurance Company	1.00 %	
	Everest Reinsurance Company	5.00	
	Munich Reinsurance America, Inc.	15.00	
	Platinum Underwriters Re, Inc.	2.00	
	Subtotal – Domestic		23.00 %
International Placements - Lloyd's			
	Lloyd's Underwriters, London as follows:		
	Syndicate 0435-FDY	13.80 %	
	Syndicate 0609-AUW	0.70	
	Syndicate 623/2623 AFB	4.00	
	Syndicate 1084-CSL	4.00	
	Syndicate 2001-AML	4.00	
	Syndicate 2007-NVA	7.00	
	Syndicate 2010-MMX	10.00	
	Syndicate 4000-PEM	7.50	
	Subtotal – Lloyd's		51.00 %
Other International Placements			
	Hannover Re Ltd. (Bermuda)	4.00	
	Lansforsakringar Sak Forsakringsaktiebolag (Sweden)	2.00	
	Sirius International Insurance Corporation (Sweden)	5.00	
	R+V Versicherung AG (Germany)	15.00	
	Subtotal – Other		26.00 %
	Total Placements		100.00 %

Catastrophe Excess of Loss Reinsurance

Third Layer

	Assuming Company	Percentage	
Domestic			
	American Agricultural Insurance Company	1.50 %	
	Everest Reinsurance Company	5.00	
	Houston Casualty Company	7.50	
	Munich Reinsurance America, Inc.	15.00	
	Platinum Underwriters Re, Inc.	1.50	
	QBE Reinsurance Corporation	1.00	
	Subtotal - Domestic		31.50 %
International Placements - Lloyd's			
	Lloyd's Underwriters, London as follows:		
	Syndicate 0609-AUW	1.00 %	
	Syndicate 623/2623 AFB	5.00	
	Syndicate 1084-CSL	5.00	
	Syndicate 2001-AML	5.00	
	Syndicate 2007-NVA	4.00	
	Syndicate 2010-MMX	10.00	
	Syndicate 4000-PEM	7.50	
	Subtotal -Lloyd's		37.50 %
Other International Placements			
	Allied World Assurance Company Ltd. (Bermuda)	7.50 %	
	Hannover Re Ltd. (Bermuda)	4.00	
	R+V Versicherung AG (Germany)	11.50	
	Lansforsakringar Sak Forsakringsaktiebolag (Sweden)	2.00	
	Sirius International Insurance Corp. (Sweden)	6.00	
	Subtotal – Other		31.00 %
	Total Placements		100.00 %

Assuming Company	Percentage	
Domestic		
Munich Reinsurance America, Inc.	15.00 %	
Platinum Underwriters Reinsurance, Inc.	1.00	
The Toa Reinsurance Company of America	2.75	
		18.75 %
International Placements - Lloyd's		
Lloyd's Underwriters, London as follows:		
Syndicate 0435-FDY	6.50 %	
Syndicate 0609-AUW	1.25	
Syndicate 623/2623-AFB	2.50	
Syndicate 2001-AML	2.50	
Syndicate 2007-NVA	7.50	
Syndicate 2010-MMX	6.50	
Syndicate 4000-PEM	7.50	
Subtotal – Lloyd's		34.25 %
Other International Placements		
Hannover Re Ltd. (Bermuda)	10.00 %	
Montpelier Reinsurance Ltd. (Bermuda)	10.00	
R+V Versicherung AG (Germany)	24.00	
Lansforsakringar Sak Forsakringsaktiebolag (Sweden)	1.00	
Sirius International Insurance Corporation (Sweden)	2.00	
Subtotal – Other		47.00 %
Total Placements		100.00 %