



STATE OF UTAH INSURANCE DEPARTMENT

REPORT OF FINANCIAL EXAMINATION

of

WESTERN MUTUAL INSURANCE COMPANY
(Now known as WMI Mutual Insurance Company)

of

Taylorsville, Utah

as of

December 31, 2009



TABLE OF CONTENTS

SALUTATION	1
SCOPE OF EXAMINATION	1
Period Covered by Examination	1
Examination Procedures Employed.....	2
Status of Prior Examination Findings	2
SUMMARY OF SIGNIFICANT FINDINGS	2
SUBSEQUENT EVENTS	2
COMPANY HISTORY	2
General.....	2
Dividends and Capital Contributions.....	3
Mergers and Acquisitions	3
CORPORATE RECORDS	3
MANAGEMENT & CONTROL INCLUDING CORPORATE GOVERNANCE	4
Holding Company.....	5
FIDELITY BONDS AND OTHER INSURANCE	5
PENSIONS, STOCK OWNERSHIP AND INSURANCE PLANS	6
TERRITORY AND PLAN OF OPERATION	6
GROWTH OF COMPANY	7
LOSS EXPERIENCE	9
REINSURANCE	9
ACCOUNTS AND RECORDS	10
STATUTORY DEPOSITS	10
FINANCIAL STATEMENTS	11
ASSETS	12
LIABILITIES, SURPLUS AND OTHER FUNDS	13
SUMMARY OF OPERATIONS.....	14
RECONCILIATION OF CAPITAL AND SURPLUS.....	15
COMMENTS ON FINANCIAL STATEMENTS	16
SUMMARY OF RECOMMENDATIONS	16
ACKNOWLEDGEMENT	16

March 3, 2011

Honorable Neal T. Gooch, Commissioner
Utah Insurance Department
3110 State Office Building
Salt Lake City, Utah 84114

Honorable Monica J. Lindeen, Commissioner
Secretary, Western Zone, NAIC
Montana Commissioner of Securities and Insurance
840 Helena Avenue
Helena, Montana 59601

Honorable Joseph Torti, III, Superintendent
Chair, Financial Condition (E) Committee, NAIC
State of Rhode Island
Department of Business Regulation
Division of Insurance
1511 Pontiac Avenue, Building 69-2
Cranston, Rhode Island 02920

Pursuant to your instructions and in compliance with statutory requirements, an examination, as of December 31, 2009, has been made of the financial condition and business affairs of:

WESTERN MUTUAL INSURANCE COMPANY
(Now known as WMI Mutual Insurance Company)
Taylorsville, Utah

hereinafter referred to in this report as the Company, and the following report of examination is respectfully submitted.

SCOPE OF EXAMINATION

Period Covered by Examination

The last exam was completed as of December 31, 2005. The current examination covers the period from January 1, 2006 through December 31, 2009, including any material transactions and/or events occurring subsequent to the examination date noted during the course of the examination.

Examination Procedures Employed

We conducted our examination in accordance with the National Association of Insurance Commissioners (NAIC) Financial Condition Examiners Handbook. The Handbook requires that we plan and perform the examination to evaluate the financial condition and identify prospective risks of the Company by obtaining information about the Company including corporate governance, identifying and assessing inherent risks within the Company and evaluating system controls and procedures used to mitigate those risks. An examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management's compliance with Statutory Accounting Principles and Annual Statement Instructions when applicable to domestic state regulations.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process.

Status of Prior Examination Findings

The last examination noted the annual actuarial certifications filed for the years 2003-2005 by the Company were not prepared according to guidance set forth in Utah Administrative Code (U.A.C.) R590-162-7(A) & (B) and the NAIC Annual Statement Instructions for Life, Accident and Health. The matter was resolved by the Company.

SUMMARY OF SIGNIFICANT FINDINGS

There are no significant findings as a result of this examination.

SUBSEQUENT EVENTS

Effective January 1, 2011, the Company entered into a new ceded reinsurance agreement with HCC Life Insurance Company, an Indiana domicile. Under the terms of the contract, HCC Life Insurance Company assumes 100% up to the maximum liability of \$2,000,000, after the Company's retention amount of \$250,000 per member per policy period.

COMPANY HISTORY

General

Western Petroleum Marketers Mutual Insurance Company was licensed by the Utah Insurance Department as a mutual life insurance Company effective July 1, 1987. The certificate of authority was issued to the Company to transact life, annuity and accident & health insurance.

The name of the Company was changed in December 1994 to Western Mutual Insurance Company. In October 1999, the Company formed a wholly owned third party administrator, WMI TPA, Inc.

Based on a favorable legal settlement with another insurer in California, the Company changed its name from "Western Mutual Insurance Company" to "WMI Mutual Insurance Company" effective December 2, 2010. In anticipation of the name change, the board of directors unanimously voted (7-0) to present the amendment of the Company's bylaws and Articles of Incorporation to its members. The amendment was duly adopted by majority vote of members at the Annual Meeting.

Dividends and Capital Contributions

The Company neither declared nor paid any dividends during the period of this examination.

Mergers and Acquisitions

There were no mergers or acquisitions during the period of this examination.

CORPORATE RECORDS

The previous examination report as of December 31, 2005, dated September 12, 2006, was distributed to the board of directors on October 27, 2006.

During the period covered by this examination, directors and officers of the Company completed conflict of interest statements annually. The minutes of the Board of Directors indicate that the Company operates within the scope of its authority and is in conformity with the requirements of the Articles of Incorporation concerning matters covered and authorizations made. The minutes also showed appropriate and active involvement of the board of directors in the business and affairs of the Company.

MANAGEMENT & CONTROL INCLUDING CORPORATE GOVERNANCE

The Company's bylaws state, "The number of directors of the Corporation shall be not less than five (5) nor more than fifteen (15)."

The following persons served as directors of the Company as of December 31, 2009:

<u>Name and Location</u>	<u>Title and Principal Occupation</u>
H. Kent Johnson (Chairman) Boise, Idaho	President Boise Cold Storage
Douglas Alexander Bozeman, Montana	President Story Distributing Company
David Leo Salt Lake City, Utah	President & CEO Western Mutual Insurance Company
Craig Eerkes Kennewick, Washington	President & CEO Sun Pacific Energy, Inc.
Kendall Hatch Salt Lake City, Utah	Attorney (Retired)
Gerald Richardson Ogden, Utah	President (Retired) Hone Oil Company, Inc.
Roger Baird Farmington, Utah	Vice President (Retired) Zurich in North America

The bylaws specify that the officers consist of a Chairman, a President, and a Secretary/Treasurer. Officers as of December 31, 2009, were as follows:

<u>Name</u>	<u>Title</u>
H. Kent Johnson	Chairman
David Leo	President & CEO
Nancy Comins	Secretary/Treasurer/CFO

On the Jurat Page of 2006-2009 Annual Statements, the Company disclosed only two officers, David Leo as President & CEO, and Nancy Comins as Secretary/Treasurer/CFO. Pursuant to an examination recommendation, the Company disclosed the third officer, H. Kent Johnson, in the filing of its third quarter 2010 financial statement. Mr. Johnson was the Chairman of the Company throughout the examination period.

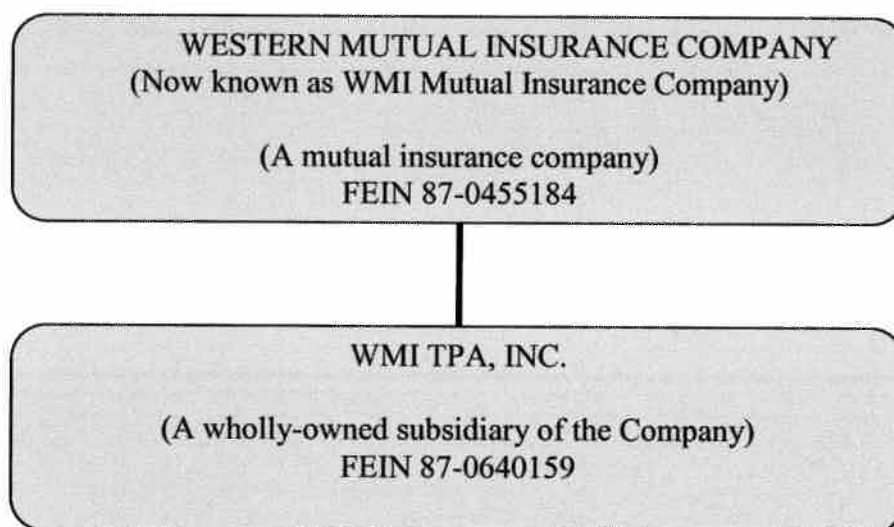
Committees and the respective committee members of the Company as of December 31, 2009 were as follows:

<u>Audit Committee</u>	<u>Compensation Committee</u>	<u>Investment Committee</u>
Kendall Hatch (Chairman)	Gerald Richardson (Chairman)	Craig Eerkes (Chairman)
Gerald Richardson	Kendall Hatch	Doug Alexander
Roger Baird	H. Kent Johnson	Kent Johnson

Holding Company

The Company is a mutual insurance company, as such is owned by its policyholders. On October 23, 1999, a holding company structure was created, in which the Company wholly owns its subsidiary third party administrator, WMI TPA, Inc.

An organizational chart illustrating the holding Company system follows:



FIDELITY BONDS AND OTHER INSURANCE

The minimum fidelity insurance coverage suggested by the NAIC for the Company's size and premium volume is between \$250,000 and \$300,000. The Company has fidelity bond coverage through the Chubb Group of Insurance Companies with the aggregate limit of liability of \$1,000,000.

The Company also had additional insurance protection, including Directors & Officers Liability, Professional Liability, Business Owners, and Workers Compensation.

PENSIONS, STOCK OWNERSHIP AND INSURANCE PLANS

The Company offers to its employees a Simplified Employee Pension Plan (SEP). All employees who have one year of continuous service with the Company are eligible for participation in the Plan.

In 2009, the plan was audited by the Internal Revenue Service (IRS) for the years ending December 31, 2006 and 2007. The IRS noted no change was necessary to the plan arrangement; however it was noted that documents were not easily accessible. They further noted that it is very important that all plan documents, and supporting documents, including copies of all signed and executed documents be kept in a safe place and be easily accessible.

The Company also offers health, dental, vision, life, and disability insurance to full-time employees who meet insurance plan eligibility requirements and have been employed by the Company for at least 30 days of continuous service. The Company's pays 100% of eligible employees' premium and 90% of eligible employees' dependents' premium for group health, dental, and vision coverage.

Maximum monthly disability benefits for eligible exempt and non-exempt employees' are \$2,000 and \$1,000 respectively.

In addition, the Company also participates in a Section 125 Flexible Benefit Plan. Employees become eligible to participate in the plan on the first of the month following at least 30 days of continuous service.

TERRITORY AND PLAN OF OPERATION

The Company is currently licensed and writing business in the state of Arizona, Idaho, Montana, Nevada, New Mexico, Utah, and Washington. Participants in the life and health insurance program are either members of the Western Petroleum Marketers Association (WPMA) or the Montana Retail Association (MRA). The Company employs a marketing director with two distinct distribution systems in the marketing and sales of its products as follows:

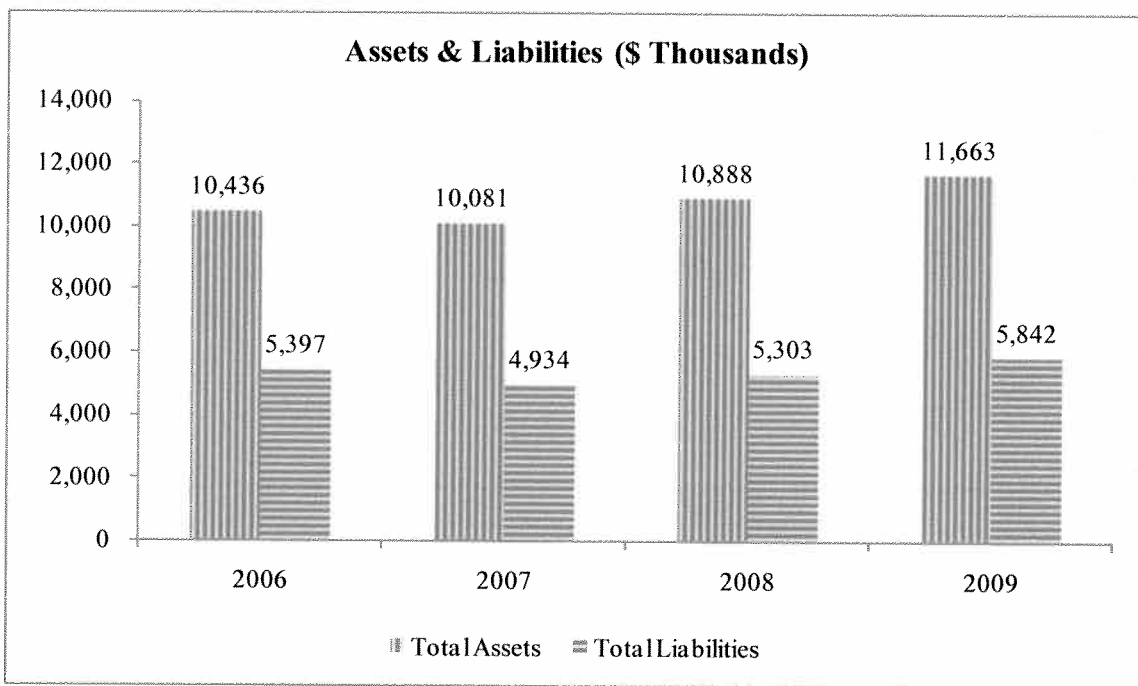
- The first distribution system, marketed to WPMA members, utilizes a limited number of appointed producers. As of December 31, 2009, the Company appointed 3 individual and 3 agency producers.

- The second distribution system is used to market to the MRA members through an independent general agent. The general agent is Glacier Insurance Strategies (formerly known as Glacier Financial Strategies).

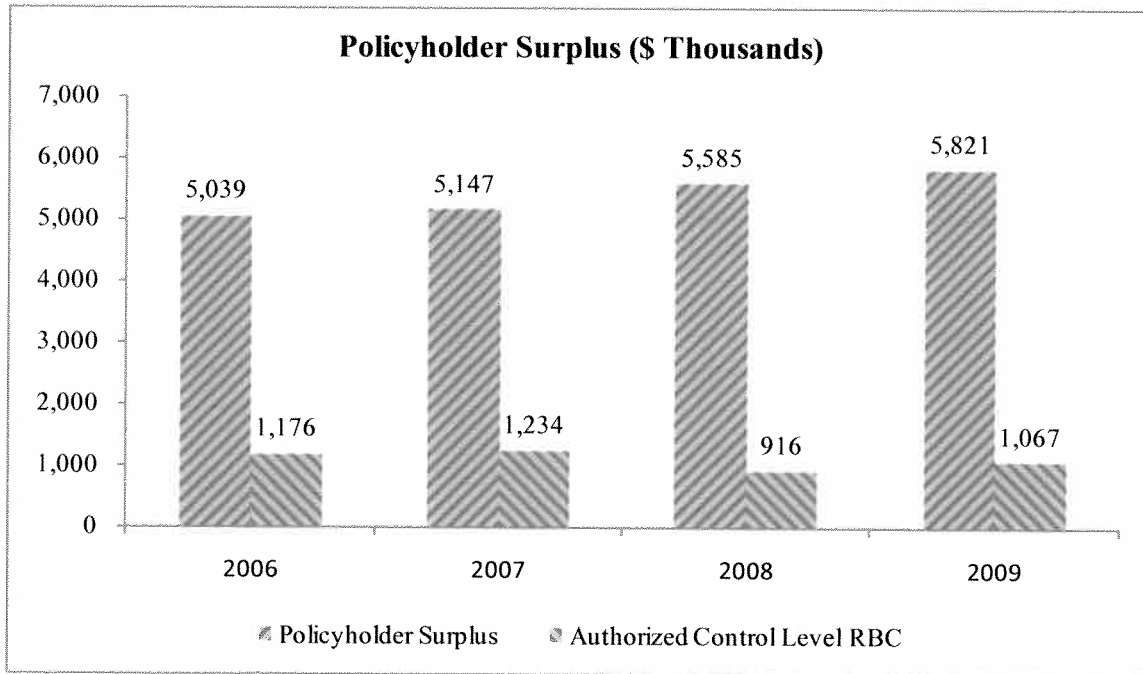
Regardless of which marketing approach is employed, all insurance policies are underwritten by the Company's underwriting department.

GROWTH OF COMPANY

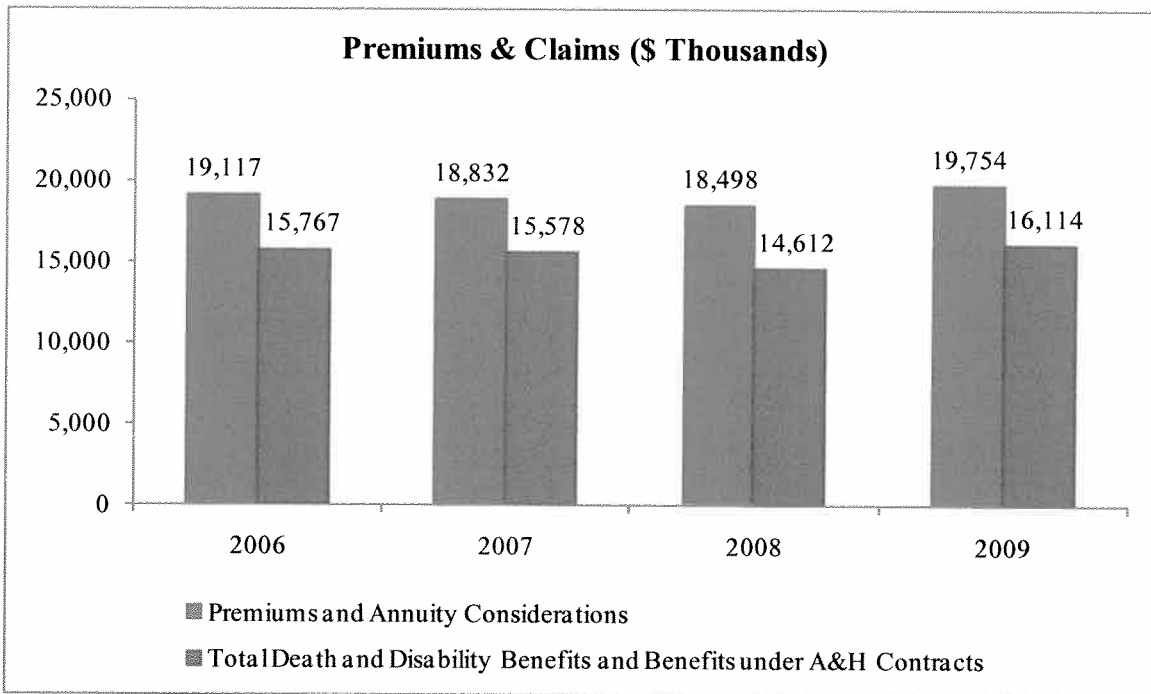
Totals assets as reported by the Company increased by approximately \$1.2M or 12% from 2006 to 2009. Total liabilities, however, increased at a slower pace. From 2006 to 2009, total liabilities increased by approximately 8%.



The Company's capital and surplus slightly increased over the years, and has always been significantly above the authorized control level risk based capital requirement.



Premiums fluctuated slightly over the period of this examination as the Company has had enrollment decline.



LOSS EXPERIENCE

Loss experience has been stable. The Company primarily writes accident and health (A&H) insurance. The following table summarizes the Company's loss ratios over the last four years related to their A&H business.

2006	2007	2008	2009
82.1%	84.6%	80.8%	82.8%

The Company utilizes completion factors in setting their A&H claim liability. This is an acceptable reserve method. During the examination the Company provided us with their historical analysis of the claim liability for claims paid through October of 2010. The historical analysis shows a retrospective reserve of \$2,995,629 as of year-end 2009. The Company reported A&H claim reserve of \$3,999,895, which implies the year-end 2009 incurred but not reported was overstated by \$1,004,266. The following table summarizes this A&H claim reserve adequacy over the last four years.

2006	2007	2008	2009
\$900,177	\$1,311,173	\$1,316,405	\$1,004,266

REINSURANCE

ASSUMED

The Company neither maintained, nor entered into any assumed reinsurance agreement during the examination period.

CEDED

As of the examination date the Company had the following ceded reinsurance agreements:

A&H:

The Company had an excess of loss reinsurance agreement with OneBeacon Insurance Company. OneBeacon is an authorized reinsurer domiciled in the State of Pennsylvania. As specified in the agreement, OneBeacon Insurance Company assumes 100% up to the maximum liability of \$2,000,000, after the Company's retention amount of \$225,000 per member per policy period.

Life:

The Company has a reinsurance agreement with Beneficial Life Insurance Company of Salt Lake City, Utah, including the following provisions:

- For basic group term life, the Company retains the first \$20,000 for each insured life. The maximum amount of coverage issued by the Company, and covered by the reinsurer, is \$50,000.
- For voluntary group term life, the Company retains the first \$25,000 for each insured life. The maximum amount of coverage issued by the Company, and covered by the reinsurer, is \$500,000 for an employee and \$100,000 for an employee's spouse.

ACCOUNTS AND RECORDS

The Company's accounts and records consisted of a general ledger, registers and other subsidiary records, which were maintained electronically.

An examination trial balance was prepared from the Company's computerized general ledger. Account balances were traced to the annual statement exhibits and schedules. Individual material account balances for the examination period were examined as deemed necessary.

Larson and Rosenberger, LLP, an independent certified public accounting firm, audited the Company's records during the period covered by this examination. Audit reports and work-papers prepared by the CPA were made available for the examiners' use.

STATUTORY DEPOSITS

The Company's statutory deposit is \$400,000, pursuant to the requirements of Utah Code Annotated (U.C.A.) § 31A-5-211(2)(a). The amount of the Company's statutory deposit held in the State of Utah is confirmed to be adequate as of 12/31/2009.

The following securities were held on deposit in three states for the benefit of all policyholders of the Company:

State	Description	Par Value	Fair Value
Utah	Cache County Utah School Dist	\$110,000	\$111,851
	East Pennsboro PA Area School	70,000	72,645
	Bedford Park IL Water REV	85,000	86,687
	Central Weber Utah SWR IMPT	230,000	236,403
	Kearns Utah Impt District WTR & SWR	150,000	154,731
	Ogden City UT SWR & WTR	100,000	102,903
	Payson City UT Sewer	150,000	150,426
	Pleasant Grove City UT WTR REV	105,000	111,274
Subtotal:		1,000,000	1,026,920
Nevada	University North TX Univ REV	200,000	202,140
New Mexico	Knox Ind School BLDG Corp REV	100,000	106,128
Total:		\$1,300,000	\$1,335,188

FINANCIAL STATEMENTS

The following financial statements were prepared from the Company's accounting records and the valuations and determination made during the examination. The accompanying COMMENTS ON FINANCIAL STATEMENTS are an integral part of the financial statements.

WESTERN MUTUAL INSURANCE COMPANY
ASSETS
as of December 31, 2009

		<u>Net Admitted Assets</u>
Bonds	\$	9,226,594
Preferred Stocks		100,000
Common Stocks		1,315,981
Cash and Short-Term Investments		516,282
Subtotal Cash and Investments		<u>11,158,857</u>
Investment Income Due and Accrued		89,179
Uncollected Premiums and Agents' Balances		65,365
Amounts Recoverable from Reinsurers		45,997
Current Federal and Foreign Income Tax Recoverable		139,094
Net Deferred Tax Asset		93,565
Electronic Data Processing Equipment and Software		24,723
Receivables from parents and subsidiaries		3,313
Aggregate Write-Ins for other than invested assets		42,593
Total Assets	\$	<u><u>11,662,686</u></u>

WESTERN MUTUAL INSURANCE COMPANY
LIABILITIES, SURPLUS AND OTHER FUNDS
as of December 31, 2009

		Current Year
LIABILITIES		
Contract claims:		
Life	\$	10,000
Accident and health		3,999,895
Premiums and annuity considerations for life and accident and health contracts received in advance		463,900
Provision for experience rating refunds		981,919
General expenses due or accrued		255,069
Taxes, licenses and fees due or accrued, excluding federal income taxes		25,369
Amounts withheld or retained by Company as agent or trustee		3,884
Remittances and items not allocated		
Asset valuation reserve (AVR)		101,562
Total Liabilities		5,841,598
SURPLUS AND OTHER FUNDS		
Gross paid in and contributed surplus		1,388,964
Unassigned funds (surplus)		4,432,124
Total Capital and Surplus		5,821,088
Total of Liabilities, Surplus, and Other Funds	\$	11,662,686

WESTERN MUTUAL INSURANCE COMPANY
SUMMARY OF OPERATIONS
for the Year Ended December 31, 2009

	Current Year
Premiums and annuity considerations for life and accident and health contracts	\$ 19,753,768
Net investment income	251,590
Amortization of interest maintenance reserve (IMR)	(13,684)
Aggregate write-ins for miscellaneous income	109,916
Total Revenues	20,101,590
Death benefits	10,000
Disability benefit and benefits under accident and health contracts	16,103,734
Total benefits	16,113,734
Commissions on premiums, annuity considerations and deposit-type contract funds	730,848
General insurance expenses	2,343,184
Insurance taxes licenses and fees, excluding federal income taxes	612,117
Aggregate write-ins for deductions	(46,764)
Total expenses	19,753,119
Net gain from operations before dividends	348,471
Federal and foreign income taxes incurred	161,392
Net gain from operations after dividends and taxes	187,079
Net realized capital gains (losses)	(130,646)
Net Income	\$ 56,433

WESTERN MUTUAL INSURANCE COMPANY
RECONCILIATION OF CAPITAL AND SURPLUS
2006 through 2009

	2006	2007	2008	Per Exam 2009
Capital and surplus prior reporting year	\$ 4,428,825	\$ 5,038,630	\$ 5,146,990	\$ 5,584,865
Net income	295,290	234,802	462,149	56,433
Change in net unrealized capital gains (losses)	227,958	(158,512)	(164,614)	180,142
Change in net deferred income tax	(3,940)			
Change in non-admitted assets	42,519	23,411	(51,978)	70,955
Change in asset valuation reserve	47,978	8,659	192,318	(71,306)
Net change in capital and surplus	609,805	108,360	437,875	236,224
Capital and surplus end of reporting year	\$ 5,038,630	\$ 5,146,990	\$ 5,584,865	\$ 5,821,089

COMMENTS ON FINANCIAL STATEMENTS

Capital and surplus

\$5,821,089

The Company's capital and surplus was determined to be the same as that reported in the Company's annual statement as of December 31, 2009.

The Company's minimum permanent surplus was \$400,000 as defined in U.C.A. § 31A-5-211(2)(a). As of December 31, 2009, the Company reported total adjusted capital of \$5,922,650, which significantly exceeded the authorized control level risk based capital of \$1,066,680.

SUMMARY OF RECOMMENDATIONS

There is no summary of recommendations as a result of this examination.

ACKNOWLEDGEMENT

Michael Mayberry, FSA, MAAA, of Lewis & Ellis, Inc. performed the actuarial review of the examination. Colette Hogan Sawyer, CFE, CPM, PIR, Assistant Chief Examiner, and Donald Catmull, CFE, Senior Financial Examiner, Supervised the examination. In addition, Aaron Phillips, MBA, CFE, Financial Examiner, participated in the examination representing the Utah Insurance Department. They join the undersigned in acknowledging the assistance and cooperation extended during the course of the examination by officers, employees, and representatives of the Company.

Respectfully Submitted,



Malis Rasmussen, CFE, PIR
Examiner-in-Charge
Utah Insurance Department