



STATE OF UTAH INSURANCE DEPARTMENT

REPORT OF FINANCIAL EXAMINATION

of

WMI Mutual Insurance Company

of

Taylorsville, Utah

as of

December 31, 2013

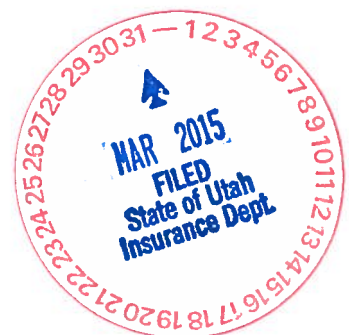


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December 12, 2014

Honorable Todd E. Kiser, Commissioner
Utah Insurance Department
3110 State Office Building
Salt Lake City, Utah 84114

Commissioner:

Pursuant to your instructions and in compliance with statutory requirements, an examination, as of December 31, 2013, has been made of the financial condition and business affairs of:

WMI Mutual Insurance Company
Taylorsville, Utah

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

SCOPE OF EXAMINATION

Period Covered by Examination

The Company was last examined as of December 31, 2009. The current examination covers the period from January 1, 2010 through December 31, 2013, including any material transactions and/or events occurring subsequent to the examination date noted during the course of the examination.

Examination Procedure Employed

The examination was conducted in accordance with the National Association of Insurance Commissioners (NAIC) *Financial Condition Examiners Handbook* (Handbook) to determine compliance with accounting practices and procedures in conformity with the applicable laws of the State of Utah, and insurance rules promulgated by the Utah Insurance Department (the Department). The Handbook requires that the Examiners 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 Statement of Statutory Accounting Principles (SSAPs) and annual statement instructions when applicable to domestic state regulations.

The Company retained the services of a certified public accounting firm, Larsen & Co., to audit its financial records for the years under examination. An unqualified opinion was rendered for all years under examination. The firm allowed the examiners access to requested workpapers prepared in connection with its audits. The external audit work was relied upon where deemed appropriate.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. In order to develop an examination plan tailored to the Company’s individual operating profile, the initial phase of the examination focused on evaluating the Company’s business approach as well as governance and control environment.

The examination determined the inherent risks associated with each of the operational areas and assessed the residual risks for each of the areas after considering mitigating factors. The mitigating factors considered were corporate governance and control environment, and work performed by external audit. Interviews were held with senior management and the Board of Directors of the Company to gain an understanding of the entity's operations and control environment.

The examination relied on the findings of the actuarial services of INS Consultants, Inc. The firm was contracted by the Department to determine the adequacy of loss reserves, loss adjustment expenses, premium deficiency reserves, and pricing policy.

A letter of representation certifying that management has disclosed all significant matters and records was obtained from management and is included in the examination workpapers.

SUMMARY OF SIGNIFICANT FINDINGS AND RECOMMENDATIONS

Prior Examination Findings

There were no significant findings noted in the previous examination report.

Current Examination Findings

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

SUBSEQUENT EVENTS

The Company's membership and premium have decreased from the prior year due to the effects of implementing the Affordable Care Act ("ACA"). ACA underwriting prohibition in the small employer market place and the MLR rebate requirements have discouraged growing enrollment in the ACA metal plans.

HISTORY

General

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

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

Upon reaching a settlement with another insurer in California, effective December 8, 2010 the Company changed its name from "Western Mutual Insurance Company" to "WMI Mutual Insurance Company."

Dividends and Capital Contributions

The Company did not receive any capital contribution during the period of this examination. 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

In general, the review of the Board meeting minutes supported the transactions of the Company and the actions taken by its officers. The Company's bylaws define a quorum as a majority of the Board. A quorum was achieved at all of the meetings.

The previous examination report as of December 31, 2009, dated February 11, 2011, was distributed to the Board of Directors on May 11, 2011.

MANAGEMENT & CONTROL INCLUDING CORPORATE GOVERNANCE

The bylaws of the Company indicated the number of directors may be no less than five (5) and no more than fifteen (15). The following persons served as directors of the Company as of December 31, 2013:

<u>Name and Location</u>	<u>Title and Principal Occupation</u>
Kendall Hatch Draper, UT	Attorney (Retired)
Doug Alexander Bozeman, MT	President Story Distributing Company
Craig Eerkes Kennewick, WA	President & CEO Sun Pacific Energy, Inc.
Kent Johnson Boise, ID	President (Retired) Boise Cold Storage
Gerry Richardson Ogden, UT	President (Retired) Hone Oil Company, Inc.
David Leo Salt Lake City, UT	President & CEO WMI Mutual Insurance Company
Roger Baird Farmington, UT	Vice President (Retired) Zurich North America

The bylaws specify that the officers consist of a Chairman, a President, and a Secretary/Treasurer. Officers as of December 31, 2013, were as follows:

<u>Name</u>	<u>Title</u>
Douglas A. Alexander	Chairman
David T. Leo	President & CEO
Nancy J. Comins	Secretary/Treasurer/CFO

Committees and the respective committee members of the Company as of December 31, 2013 were as follows:

Investment Committee

Craig Eerkes (Chairman)
Doug Alexander
Kent Johnson

Audit Committee

Kendall Hatch (Chairman)
Gerry Richardson
Roger Baird

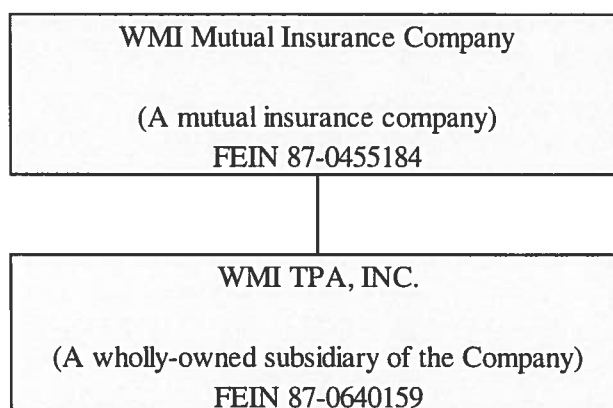
Compensation Committee

Gerry Richardson (Chairman)
Kendall Hatch
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:



Transactions with Affiliates

WMI TPA, Inc. ("TPA") is a wholly-owned subsidiary of WMI Mutual Insurance Company incorporated on October 12, 1999. With the TPA, the Company holds a sublease agreement, an agreement to use WMI software, and an agreement to have access and support from Company employees. The TPA is authorized to offer the ancillary insurance products of the Company, on behalf of, and subject to the same terms and conditions that are adhered to by the Company. The ancillary insurance products include, but are not limited to, dental, vision, disability, and life insurance policies. According to the 2013 Annual Statements the TPA was categorized as an affiliated investment, worth \$317,909 , or 2.52% of the Company's total assets.

FIDELITY BONDS AND OTHER INSURANCE

The minimum fidelity insurance coverage suggested by the NAIC for the Company's size and premium volume is between \$200,000 and \$250,000. The Company as of the examination date had fidelity bond coverage through Chartis Insurance Company with the aggregate limit of liability of \$1,000,000.

EMPLOYEE PENSIONS 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.

The Company also offers health, dental, vision, life and disability insurance to full-time employees who meet eligibility requirements. The Company 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 in Arizona, Idaho, Montana, Nevada, New Mexico, Utah and Washington. Historically, the Company provided group health and life insurance only to employers that are members of either the Western Petroleum Marketers Association or the Montana Retail Association. To comply with the Affordable Care Act, the Company is now offering its products to any qualifying employer. All of the Company's group health insurance products utilize preferred provider organization networks. In addition, the Company offers Medicare Supplement insurance policies, ancillary insurance products such as dental, vision and short-term disability insurance.

Over the years, the Company has defined itself as a niche player in the small employer health insurance market. Over the past decade, the Company has effectively competed with large carriers. Changes in the health insurance marketplace as a result of passage of the Patient Protection and Affordable Care Act have placed additional burdens and presented challenges for the Company moving forward.

GROWTH OF COMPANY

The following table depicts the Company's financial growth throughout the examination period:

	2013	2012	2011	2010
Admitted Assets	\$12,965,253	\$12,966,828	\$14,098,480	\$13,260,222
Liabilities	6,041,118	6,294,269	7,448,781	6,923,584
Surplus	6,924,135	6,672,559	6,649,698	6,336,638
Net Income	244,328	3,571	349,934	527,061

LOSS EXPERIENCE

The following table depicts the Company's premiums, claims and loss ratio during the examination period.

	2013	2012	2011	2010
Premiums Earned	\$20,103,412	\$19,706,994	\$18,060,067	\$17,971,339
Claims	17,028,872	16,649,717	14,344,322	14,493,991
Loss ratio	85%	85%	79%	81%

The Company's Experience Rating Refund ("ERR") balance on December 31, 2011 was \$2,144,000. In 2012 the Company experienced several large claims in excess of \$100,000. To avoid an operating loss and to help pay claims, the Company reduced its ERR by \$1,400,000. The Company's poor claims experience continued in 2013, resulting in the Company's Board of Directors decision to draw down the remaining \$744,000 from the ERR.

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:

Accident & Health:

The Company had an excess of loss reinsurance agreement with Zurich American Insurance Company ("Zurich"). Zurich is an authorized reinsurer domiciled in the state of Illinois. As specified in the agreement, Zurich assumes 100% up to the maximum liability of \$2 million, after the Company's retention amount of \$250,000 per member per policy period.

Starting January 1, 2014, the Company has an excess of loss reinsurance agreement with United States Fire Insurance Company ("U.S. Fire"). U.S. Fire is an authorized reinsurer domiciled in the state of New Jersey. U.S. Fire assumes 100% up to an unlimited maximum liability, after the Company's retention amount of \$300,000 per member per policy period.

Life:

The Company has a reinsurance agreement with Beneficial Life Insurance Company of Salt Lake City, UT, which includes 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.

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

STATUTORY DEPOSITS

The Company's statutory deposit requirement was \$400,000 pursuant to U.C.A. § 31A-5-211(2)(a). As of December 31, 2013 the examination confirmed the Company maintained an adequate statutory deposit as of December 31, 2013. Securities held consisted of various municipal bonds, and bonds guaranteed by the U.S. Government.

State	Description	Par Value	Market Value
Utah	Lyon Cnty Nev Sch Dist	\$200,000	\$205,846
	Churchill Cnty Nev Sch Dist	100,000	102,663
	Government Natl Mtg Mtg Assoc Pool	69,961	52,497
	Illinois State Revenue Bond	200,000	202,106
	US Treasury Notes IDX	107,180	126,010
	US Treasury Notes IDX	112,180	126,010
	US Treasury Notes IDX	117,289	127,455
	South Madison Ind County Sch Bldg Corp	100,000	100,087
Utah Subtotal:		1,006,524	1,042,075
Nevada	Peru NY Cent School District GO	100,000	99,490
	US Treasury Notes Inflation Index	110,150	111,070
New Mexico	Deer Park TX Independent Sch Dist	100,000	103,347
Total:		\$1,316,674	\$1,355,982

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.

WMI Mutual Insurance Company
ASSETS
as of December 31, 2013

Bonds	\$9,083,034
Preferred Stocks	223,243
Common Stocks	3,335,797
Cash and Short-Term Investments	169,096
Subtotal, Cash & Invested Assets	<u>\$12,811,170</u>
Investment Income due and Accrued	69,446
Uncollected Premiums and Agents Balances	37,864
Current federal and foreign income tax recoverable and interest	14,834
Receivables from Parent, Subsidiaries and Affiliates	651
Aggregate write-ins for other than invested assets	<u>31,289</u>
Total Assets	<u>\$12,965,253</u>

LIABILITIES, SURPLUS AND OTHER FUNDS
as of December 31, 2013

Contract Claims	\$4,811,685
Premiums Received in Advance	445,509
General Expenses due or Accrued	232,035
Taxes, Licenses and Fees Due of Accrued	19,453
Net Deferred Tax Liability	58,731
Amounts Withheld of Retained by Company as Agent or Trustee	668
Miscellaneous Liability – AVR	<u>473,037</u>
Total Liabilities	<u>\$6,041,118</u>
 Gross Paid-in and Contributed Surplus	 1,388,964
Unassigned Funds (Surplus)	<u>5,535,171</u>
Total Capital and Surplus	<u>6,924,135</u>
Total of Liabilities, Surplus, and Other Funds	<u>\$12,965,253</u>

WMI Mutual Insurance Company
SUMMARY OF OPERATIONS
for the Year Ended December 31, 2013

Premiums and Annuity Considerations	\$20,103,412
Net Investment Income	155,438
Amortization of Interest Maintenance Reserve	(18,808)
Aggregate Write-ins for Miscellaneous Income	121,291
Total	<u>20,361,333</u>
Death Benefits	25,000
Disability Benefits and Benefits under Accident and Health Contracts	17,003,872
Totals	<u>17,028,872</u>
Commissions on Premiums	751,008
General Insurance Expenses	2,358,494
Insurance Taxes, Licenses and Fees, Excluding Federal Income Taxes	485,436
Totals	<u>20,623,810</u>
Net Gain from Operations before Dividends to Policyholders	(262,477)
Federal and Foreign Income Taxes Incurred	(594)
Net Gain from Operations after Dividends to Policyholders	(261,883)
Net Realized Capital Gains (Losses)	506,211
Net Income (Loss)	<u>\$244,328</u>

WMI Mutual Insurance Company
RECONCILIATION OF CAPITAL AND SURPLUS
2010 through 2013

	2010	2011	2012	2013
Capital and surplus prior year	\$5,821,088	\$6,336,638	\$6,649,698	\$6,672,559
Net income (loss)	527,061	349,934	3,521	244,328
Change in net unrealized capital gains (losses) less capital gains tax	124,727	67,147	130,896	186,216
Change in net deferred income tax	23,243	(66,335)	(39,096)	(94,850)
Change in non-admitted assets	39,728	(12,638)	568	(9,978)
Change in asset valuation reserve	(199,209)	(25,048)	(73,079)	(74,139)
Net change in capital and surplus	515,550	313,060	22,861	251,576
Surplus End of Reporting	\$6,336,638	\$6,649,698	\$6,672,559	\$6,924,135

COMMENTS ON FINANCIAL STATEMENTS

Capital and Surplus

\$6,924,135

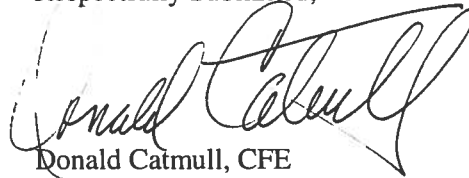
The Company's capital and surplus was determined to be the same as reported in the Company's Annual Statement as of December 31, 2013.

The Company's minimum permanent surplus was \$400,000 as defined in U.C.A. § 31A-5-211(2)(a). As of December 31, 2013, the Company reported total adjusted capital of \$7,397,172, which significantly exceeds the authorized control level risk-based capital of \$1,413,080.

ACKNOWLEDGEMENT

Malis Rasmussen, CFE, SPIR, Exam Manager of the Utah Insurance Department supervised the examination. Cory Starley, Financial Examiner of Utah Insurance Department, participated in the examination. Tracy Gates, CISA, CPA, CFE, of Highland Clark, reviewed the information system portion of the examination. Joseph Higgins, FSA, MAAA, of INS Regulatory Services, Inc., performed the actuarial review of the examination. 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,

A handwritten signature in black ink, appearing to read "Donald Catmull", is written over a faint, circular official stamp.

Donald Catmull, CFE
Examiner-in-Charge
Utah Insurance Department