Report

of the

Examination of

WEA Property Casualty Insurance Company

Madison, Wisconsin

As of December 31, 2001

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State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

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Jorge Gomez, *Commissioner*

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January 17, 2003

Honorable Jorge Gomez
Commissioner of Insurance
State of Wisconsin
121 East Wilson Street
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Commissioner:

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

WEA PROPERTY CASUALTY INSURANCE COMPANY
Madison, Wisconsin

and this report is respectfully submitted.

I. INTRODUCTION

The previous examination of the company was conducted in 1997 as of December 31, 1996. The current examination covered the intervening period ending December 31, 2001, and included a review of such 2002 transactions as deemed necessary to complete the examination.

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

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

Accounts and Records
Data Processing

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

The section of this report titled "Summary of Examination Results" 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.

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

II. HISTORY AND PLAN OF OPERATION

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

WEAPC was established to underwrite automobile, homeowner's, and inland marine coverage to employees of Wisconsin school districts through National Education Association affiliated teacher unions. Before 1993, WMBT placed the business with unaffiliated insurers.

WEAPC is licensed and writes direct premium in Wisconsin only. The products are directly marketed to union members and other school employees. The company's staff includes thirteen people who are licensed agents. Of these, eight member service consultants are primarily responsible for product sales. Three administrative staff employees and two other service representatives are also licensed agents.

Until 1997, most of the company's operations were administered by Wisconsin Mutual Insurance Company (WMIC) including premium collection, underwriting, and claims adjudication and payment. Beginning April 1, 1997, these processes were gradually brought in-house, as WEAPC began processing premiums and adjusting all new claims. WMIC continued to adjust existing claims until September 30, 1997, when about 100 outstanding claims were shifted to WEAPC's system and the transition was complete. Currently, WEAPC administers all premiums and claims. Some data processing and administrative services are provided by WEA Insurance Corporation, an affiliated company.

The following table is a summary of the net insurance premiums written by the company in 2001. 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
Homeowners multiple peril	$1,184,429	$0	$244,729	$ 939,700
Inland marine	101,327	0	0	101,327
Private passenger auto liability	2,632,321	0	569,518	2,062,803
Auto physical damage	2,742,966	0	49,965	2,693,001
Total All Lines	$6,661,043	$0	$864,212	$5,796,831

III. MANAGEMENT AND CONTROL

Board of Directors

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

Currently the board of directors consists of the following persons:

Name and Residence	Principal Occupation	Term Expires
Suzanne Brown Muscoda, Wisconsin	Teacher	2003
Dennis Hortum Kiel, Wisconsin	Teacher	2003
Allen Knop Madison, Wisconsin	Retired Teacher	2003
Robert Lehmann Sussex, Wisconsin	President, Milwaukee Teachers Education Association	2003
Pat McGrath Port Edwards, Wisconsin	Teacher	2003
Clayton Smits De Pere, Wisconsin	Retired Teacher	2003
Elaine Stelter Eau Claire, Wisconsin	Retired Teacher	2003

Officers of the Company

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

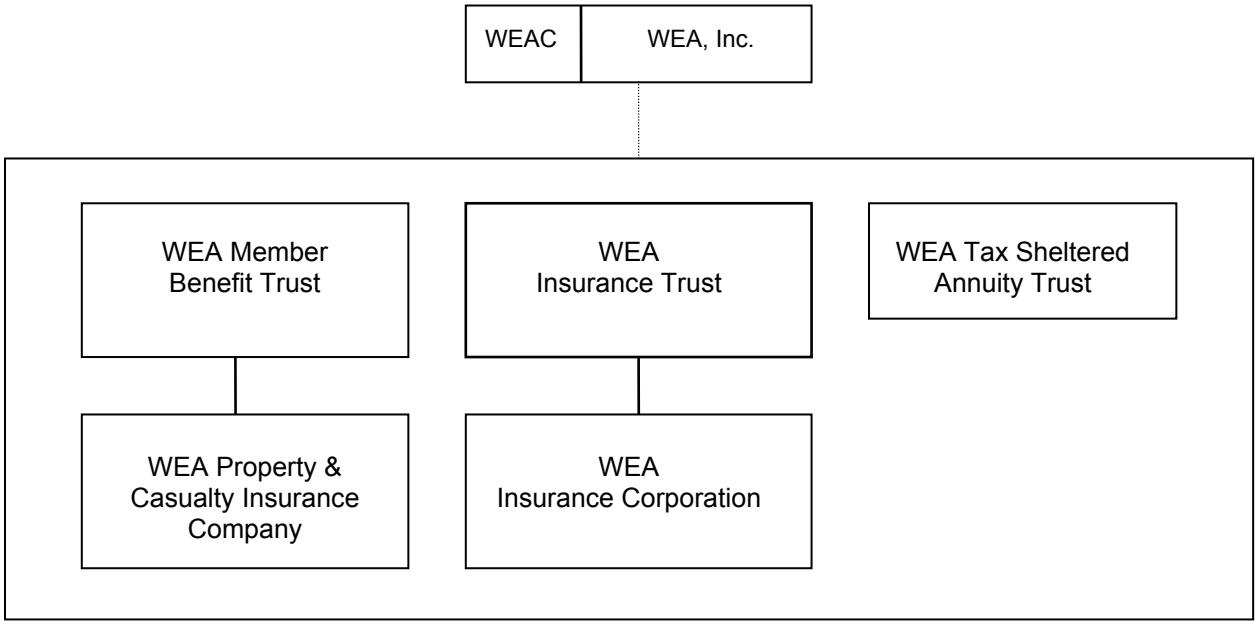
Name	Office	2001 Compensation*
Russell G. Denk	President	$137,756
Paul G. Lefebvre	Vice-President and Treasurer	148,307
Renee Vedvig	Secretary	67,245
David Kijek	Vice-President	90,499

* Amount shown is total compensation for all affiliates, and is paid by WEA Insurance Corporation. This amount is then allocated among affiliates.

IV. AFFILIATED COMPANIES

WEAPC is a member of a holding company system. The organizational chart below depicts the relationships among the affiliates in the group. A brief description of the significant affiliates of WEAPC follows the organizational chart.

Organizational Chart
As of December 31, 2001



Wisconsin Education Association Council (WEAC)

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

Wisconsin Education Association, Inc. (WEA, Inc.)

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

WEA Insurance Trust (WEAIT)

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

WEAIT's health benefit plans including medical, dental, drug, disability, and long-term care, are underwritten exclusively by WEAIC. Life insurance coverages are currently underwritten by Trustmark Insurance Company.

As of December 31, 2001, WEAIT's audited financial statement (consolidated with WEAIC) reported total assets of $342,764,174, liabilities of $187,073,346, and net assets of $155,690,828. Operations for 2001 produced a net loss of $40,257,758.

WEA Member Benefit Trust (WMBT)

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

As of December 31, 2001, the WMBT's audited financial statement (consolidated with WEAPC) reported assets of $7,969,199, liabilities of $4,715,833, and trust equity of $3,253,366. Operations for 2001 produced net income of $233,973.

WEA Insurance Corporation (WEAIC)

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

As of December 31, 2001, WEAIC's audited annual statement reported assets of $285,300,719, liabilities of $190,565,618, and capital and surplus of $94,735,101. Operations for 2001 produced a net loss of $22,406,710.

WEAIC was examined concurrently with WEAPC. The results of that examination are included in a separate examination report.

WEA Tax Sheltered Annuity Trust (WEA TSAT)

WEA TSAT was established in 1978 to facilitate the investment of funds for qualified union member teachers and school district employees in a tax-sheltered annuity contract and mutual funds. WEA TSAT holds a group annuity contract issued by Connecticut General Life Insurance Company. Connecticut General also serves as a registered broker/dealer allowing participants to invest in mutual funds.

As of December 31, 2001, the trust's audited financial statement reported assets of $936,443,239, liabilities of $934,884,487, and trust equity of $1,558,752. Operations for 2001 produced a net loss of $48,643.

Common Administration and Management

WEAC and WEA, Inc., are both managed by identical 40-person boards of Wisconsin school teacher trustees. WEAC provides all administrative support for WEA, Inc., within the terms of an administrative services agreement. WEA, Inc., under the advisement of WEAC, appoints the boards of trustees of all three trusts.

WEAIT and WEA TSAT are managed by identical 11-person boards of trustees. WMBT is currently managed by a 7-person board of trustees. One individual on WMBT's board of trustees also serves on the boards for WEAIT and WEA TSAT.

WEAIC's 11 directors and WEAPC's 7 directors are elected by, and identical to, their respective parents' boards of trustees. WEAIC operates independently employing about 200 people who manage and administer its health insurance products. WEAIC also provides administrative support to the three trusts and some data processing and administrative services to WEAPC under the provisions of administrative services agreements.

V. REINSURANCE

The company's only reinsurance treaty in effect at the time of the examination is described below. The contract contained three components: property, liability, and catastrophe coverage for events involving more than one covered property risk. The contract contained a proper insolvency provision. Unless otherwise noted, the summary reflects contract terms in force at the time of the examination.

Nonaffiliated Ceding Contract

1. Type: Excess of Loss

   Reinsurer: General Reinsurance Corporation

   Effective Date: January 1, 2000

   Termination: Property and liability portions are continuous, and require 90 days prior written notice by either party to cancel. Property catastrophe coverage is written year-to-year and expires on December 31, 2002 unless renewed.

   Lines Covered: Homeowners property business and all personal liability business, with stated exclusions

   Retention: Property and Liability: $75,000

   Property Catastrophe: $150,000 plus 5% of the next $2,500,000

   Coverage: Property and Liability: Covers losses and proportional share of loss adjustment expenses, as well as 80% of extra-contractual obligations. In addition, 80% of losses in excess of policy limits are covered for liability business. In the case of events involving both a covered property risk and covered liability risk, combined losses in excess of $75,000 are covered to a limit of $75,000.

	First Excess	Second Excess
Property Limit	$ 75,000	$450,000
Prop Aggregate Limit	300,000	900,000
Liability Limit	75,000	850,000

   Property Catastrophe: 95% of losses in excess of company retention

	First Excess	Second Excess
Limit	$ 850,000	$1,650,000
Aggregate Limit	1,700,000	3,300,000

Premium: Premium for property and liability coverage is determined by multiplying factors, based on underlying policy limits, times the written premium. Maximum policy limits and premium factors are as follows:

	First Excess	Second Excess
Auto Liability $250-$500K	10.53%	14.78%
Homeowners Liability $500K	7.37%	20.55%
Property $500-600K	12.89%	23.90%

Catastrophe premium is determined by multiplying written premium times a factor, with required minimum premium. Deposit premiums are required and must be paid in quarterly installments on January 1, April 1, July 1 and October 1.

	First Excess	Second Excess
Premium Factor	3.15%	2.04%
Minimum Premium	$68,000	$44,000
Deposit Premium	85,000	55,000

Commissions: For property and liability business, the commission is 50% of the amount by which the reinsurer's earned premium (less a 15% management fee) exceeds its payments and reserves for claims. Commissions are payable once every 36 months.

No contingent commissions are paid on property catastrophe business.

VI. FINANCIAL DATA

The following financial statements reflect the financial condition of the company as reported in the December 31, 2001, annual statement to the Commissioner of Insurance. Also included in this section are schedules that reflect the growth of the company, NAIC Insurance Regulatory Information System (IRIS) ratio results for the period under examination, and the compulsory and security surplus calculation. Adjustments made as a result of the examination are noted at the end of this section in the area captioned "Reconciliation of Surplus per Examination."

WEA Property Casualty Insurance Company
Assets
As of December 31, 2001

	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	$6,552,236	$ 0	$6,552,236
Stocks:			
Common stocks	15,600	0	15,600
Cash	(172,323)	0	(172,323)
Short-term investments	62,567	0	62,567
Agents' balances or uncollected premiums:			
Premiums and agents' balances in course of collection	809,964	0	809,964
Federal and foreign income tax recoverable and interest theron	233,000	36,000	197,000
Electronic data processing equipment and software	144,905	139,864	5,041
Interest, dividends, and real estate income due and accrued	109,414	0	109,414
Other assets nonadmitted:			
Furniture, equipment, and supplies	9,596	9,596	0
Loans on personal security, endorsed or not	22,320	22,320	0
Write-ins for other than invested assets			
Prepaid Expenses	1,637	1,637	0
Total Assets	$7,788,916	$209,417	$7,579,499

WEA Property Casualty Insurance Company
Liabilities, Surplus, and Other Funds
As of December 31, 2001

Losses	$1,559,656
Loss adjustment expenses	389,973
Other expenses (excluding taxes, licenses, and fees)	209,121
Taxes, licenses, and fees (excluding federal and foreign income taxes)	26,965
Federal and foreign income taxes	87,815
Unearned premiums	2,105,133
Ceded reinsurance premiums payable (net of ceding commissions)	20,578
Amounts withheld or retained by company for account of others	2,264
Payable to parent, subsidiaries, and affiliates	87,293
Write-ins for liabilities:	
Premiums in Suspense	97,670
Other Liabilities	25,000
Total Liabilities	4,611,468
Preferred capital stock	700
Surplus notes	2,500,000
Gross paid in and contributed surplus	729,800
Unassigned funds (surplus)	(262,469)
Surplus as Regards Policyholders	2,968,031
Total Liabilities and Surplus	$7,579,499

WEA Property Casualty Insurance Company
Summary of Operations
For the Year 2001

Underwriting Income	
Premiums earned	$5,423,956
Deductions:	
Losses incurred	3,699,579
Loss expenses incurred	407,196
Other underwriting expenses incurred	1,670,044
Total underwriting deductions	5,776,819
Net underwriting gain or (loss)	(352,863)
Investment Income	
Net investment income earned	400,709
Net realized capital gains or (losses)	171,616
Net investment gain or (loss)	572,325
Other Income	
Write-ins for miscellaneous income:	
Miscellaneous Income	16,325
Total other income	16,325
Net income (loss) before dividends to policyholders and before federal and foreign income taxes	235,787
Dividends to policyholders	0
Net income (loss) after dividends to policyholders but before federal and foreign income taxes	235,787
Federal and foreign income taxes incurred	132,722
Net Income	$103,065

WEA Property Casualty Insurance Company
Cash Flow
As of December 31, 2001

Premiums collected net of reinsurance	$5,510,470		
Loss and loss adjustment expenses paid (net of salvage or subrogation)	4,537,394		
Underwriting expenses paid	1,606,825		
Other underwriting income (expenses)	20,578		
Cash from underwriting		$(613,171)	
Investment income (net of investment expense)		417,867	
Other income (expenses):			
Net amount withheld or retained for account of others	146		
Write-ins for miscellaneous items:			
Miscellaneous Income	16,325		
Total other income		16,471	
Deduct:			
Federal income taxes paid (recovered)		470	
Net cash from operations			$(179,303)
Proceeds from investments sold, matured, or repaid:			
Bonds	6,468,923		
Stocks	716,146		
Total investment proceeds		7,185,069	
Cost of investments acquired (long-term only):			
Bonds	6,432,666		
Stocks	728,446		
Total investments acquired		7,161,112	
Net cash from investments			23,957
Cash provided from financing and miscellaneous sources:			
Net transfers from affiliates	117,001		
Other cash provided	57,294		
Total		174,295	
Cash applied for financing and miscellaneous uses:			
Other applications	71,365		
Total		71,365	
Net cash from financing and miscellaneous sources			102,930
Net change in cash and short-term investments			(52,416)
Reconciliation			
Cash and short-term investments, December 31, 2000			(57,340)
Cash and short-term investments, December 31, 2001			$(109,756)

WEA Property Casualty Insurance Company
Compulsory and Security Surplus Calculation
December 31, 2001

Assets	$7,579,499	
Less liabilities	4,611,468	
Adjusted surplus		$2,968,031
Annual premium:		
Lines other than accident and health	5,796,831	
Factor	20%	
Compulsory surplus (subject to a minimum of $2 million)		2,000,000
Compulsory surplus excess (or deficit)		$ 968,031
Adjusted surplus (from above)		$2,968,031
Security surplus:		
(140% of compulsory surplus, factor reduced 1% for each $33 million in premium written in excess of $10 million, with a minimum factor of 110%)	2,800,000	
Security surplus excess (or deficit)		$ 168,031

WEA Property Casualty Insurance Company
Reconciliation and Analysis of Surplus
For the Five-Year Period Ending December 31, 2001

The following schedule is a reconciliation of total surplus during the period under examination as reported by the company in its filed annual statements:

	1997	1998	1999	2000	2001
Surplus, beginning of year	$2,191,790	$2,189,303	$2,338,321	$2,810,852	$2,720,451
Net income	23,113	135,639	481,168	(82,116)	103,065
Change in net deferred income tax					61,788
Change in non-admitted assets	(25,600)	13,379	(8,637)	(8,285)	(75,797)
Cumulative effect of changes in accounting principles					158,524
Surplus, end of year	$2,189,303	$2,338,321	$2,810,852	$2,720,451	$2,968,031

WEA Property Casualty Insurance Company
Insurance Regulatory Information System
For the Five-Year Period Ending December 31, 2001

The following is a summary of NAIC Insurance Regulatory Information System (IRIS) results for the period under examination. Exceptional ratios are denoted with asterisks. A discussion of the exceptional ratios may be found after the IRIS ratios.

	Ratio	1997	1998	1999	2000	2001
#1	Gross Premium to Surplus	212%	230%	207%	218%	224%
#2	Net Premium to Surplus	187	202	181	189	195
#3	Change in Net Writings	14	15	8	1	13
#4	Surplus Aid to Surplus	0	0	0	0	0
#5	Two-Year Overall Operating Ratio	101*	97	91	95	99
#6	Investment Yield	6.1	6.2	6.3	6.6	6.3
#7	Change in Surplus	1	7	21	-2	10
#8	Liabilities to Liquid Assets	62	68	66	68	70
#9	Agents' Balances to Surplus	4	17	23	19	27
#10	One-Year Reserve Devel. to Surplus	-7	-10	-1	-11	-6
#11	Two-Year Reserve Devel. to Surplus	-6	-15	-10	-7	-13
#12	Estimated Current Reserve Def. To Surplus	-8	-12	5	-14	5

Ratio No. 5 measures the company's profitability over the previous two-year period. The exceptional result in 1997 was attributable to the company's limited operating experience, as it was incorporated in 1993; however, the 1997 results were an improvement over 1996 results.

Growth of WEA Property Casualty Insurance Company

Year	Admitted Assets	Liabilities	Surplus As Regards Policyholders	Net Income
1997	$5,499,927	$3,310,624	$2,189,303	$23,113
1998	6,294,281	3,955,960	2,338,321	135,639
1999	6,876,810	4,065,958	2,810,852	481,168
2000	7,096,900	4,376,449	2,720,451	(82,116)
2001	7,579,499	4,611,468	2,968,031	103,065

Year	Gross Premium Written	Net Premium Written	Premium Earned	Loss And LAE Ratio	Expense Ratio	Combined Ratio
1997	$4,630,416	$4,065,524	$3,609,311	75.1%	30.7%	105.8%
1998	5,371,712	4,729,282	4,403,230	78.0	26.1	104.1
1999	5,826,597	5,095,159	4,852,849	66.7	27.7	94.4
2000	5,933,692	5,131,779	5,090,367	80.3	29.6	109.9
2001	6,661,043	5,796,831	5,423,956	75.7	28.5	104.2

The company has continued to grow steadily throughout the examination period, increasing both its surplus and its premium volume. The company had an unusually good underwriting year in 1999; however, 2000 and 2001 saw losses increase due to several weather-related events. The company continues to focus on increasing premium volume and improving underwriting performance.

Reconciliation of Surplus per Examination

There were no adjustments to surplus as a result of the examination. The following reclassifications were made as a result of the examination:

	Debit	Credit
Cash	$303,304	
Drafts Outstanding		$303,304
Reinsurance Recoverable on Paid Losses	125,143	
Losses		125,143
Receivable from Parent, Subsidiaries and Affiliates	79,800	
Payable to Parent, Subsidiaries and Affiliates		79,800
Total reclassifications	$508,247	$508,247

Further discussion of these reclassifications is included in the section of this report entitled "Summary of Current Examination Results."

VII. SUMMARY OF EXAMINATION RESULTS

Compliance with Prior Examination Report Recommendations

There were five 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. IT Environment—It is recommended that IT employees be included under the company's fidelity bond.

   Action—Compliance.

2. IT Environment—It is recommended that the company develop a formal disaster recovery plan.

   Action—Compliance.

3. Bonds—It is recommended that in Schedule D of all future annual statements, the company denote with a "z" all investments for which it has reported a company-assigned NAIC designation.

   Action—Compliance.

4. Bonds—It is suggested that the company maintain current, executed copies of the investment management agreements.

   Action—Compliance.

5. Short-Term Investments—It is recommended that in future annual statements the company properly classify money market funds per the requirements of the NAIC Annual Statement Instructions—Property and Casualty.

   Action—Compliance.

Summary of Current Examination Results

IT Environment

WEAIC's control environment appears to adequately secure the company's data. However, some areas of concern were encountered.

The company currently uses a "three strikes" provision to identify and revoke logon ID's on which three successive invalid attempts have been made. However, the current system accumulates invalid attempts only between valid attempts. Persons who may attempt to "crack" a logon password may well be aware of a three strikes provision, and limit attempts to two, between valid logons, providing an extended opportunity to crack a password. Without periodic review of logon failures by management, this pattern may never be noticed. It is recommended that the company develop procedures to ensure that critical events, such as invalid logon attempts, within the AS/400 production environment are reviewed on a timely basis.

The company does not review program modifications to ensure that only authorized program changes are being made. The company believes that such review would be a burden on supervisory and management staff that cannot be afforded at present; rather, the company relies on other programmers to catch "mischievous code" or code that does not function as required. However, this control may be effective only after the fact, if at all. Other programmers may not have or take the time to review another's work; and the effects of any mischievous changes may not be immediately noticeable. It is recommended that the company review all modifications to ensure that only authorized program changes are being made.

Cash and Short-Term Investments

Examiners discussed with the company the draft method used for the bank accounts. The company stated that the draft issue method, not the draft honor method, is used. According to SSAP 2, when the draft issue method is used, the outstanding drafts should be reported as a liability. However, the company reported the outstanding drafts as a reduction to cash. This balance will be reclassified from Cash to Drafts Outstanding. It is recommended that the company report outstanding drafts as a liability on the annual statement, in accordance with SSAP 2.

Premiums and Agents Balances In Course of Collection

During review of the installments in course of collection, it was noted that the company included deferred installments in this balance. The NAIC Annual Statement Instructions – Property and Casualty state that only receivable amounts currently due and uncollected should be included in Line 10.1 of the annual statement; receivable amounts not yet due should be reported on Line 10.2 as installments booked but deferred and not yet due. It is recommended that the company report installment premiums in accordance with the NAIC Annual Statement Instructions – Property and Casualty.

EDP Equipment and Software

During the fixed asset review, it was determined that the company was not using the proper lives for calculating depreciation on EDP equipment. SSAP 16 requires that EDP equipment and software capitalized prior to January 1, 2001 shall be depreciated over the shorter of its remaining useful life or three years. EDP equipment and software capitalized subsequent to January 1, 2001 shall be depreciated for a period not to exceed three years. However, the company continued to use a life of five years to depreciate its assets. It is recommended that the company depreciate its EDP equipment and software in accordance with the guidelines established in SSAP 16.

Reinsurance Recoverable on Unpaid Losses

In reviewing the reported balance for reinsurance recoverable on unpaid losses, it was noted that a substantial part of the recoverable was in fact based on paid losses. SSAP 62 provides that reinsurance recoverables on paid losses shall be reported as an asset without any available offset. The NAIC Annual Statement Instructions – Property and Casualty further provide that reinsurance recoverable on unpaid losses should be treated as a deduction from the reserve liability. This balance will be reclassified from Losses to Reinsurance Recoverable on Paid Losses. It is recommended that the company account for its reinsurance recoverable on both paid and unpaid losses in accordance with SSAP 62 and the NAIC Annual Statement Instructions – Property and Casualty.

Payable to Parent, Subsidiaries and Affiliates

The company previously received a permitted accounting practice from this office allowing them to net all balances receivable from and payable to all affiliates into one reported balance. Review of current guidance provided by Codification shows that this practice is no longer appropriate. SSAP 64 notes that assets and liabilities shall be offset and reported net only when a valid right of setoff exists. A valid right of setoff does not exist between a receivable from one affiliate and a payable to another affiliate. These balances must therefore be reported separately on the annual statement. This balance will be reclassified from Payable to Affiliates to Receivable from Affiliates. It is recommended that the company report affiliated balances in accordance with the provisions of SSAP 64.

Surplus Notes

The company's initial capitalization of $3,000,000 included a $2,300,000 surplus note from WEAIT, with a stated interest rate of 8%. An additional surplus note of $200,000 was issued on December 31, 1996; again, the holder of the note was WEAIT and the stated interest rate was 8%. As of December 31, 1999, the interest rate on both notes was amended to 110% of the rate on ten-year U.S. Treasury bonds. For statutory purposes, no interest accrues on a surplus note until payment is approved by the regulator, and no interest or principal payments have been approved to date.

WEAPC has maintained a "memo" calculation of "accumulated and unpaid" interest since inception, calculated at the stated interest rate. WEAIT formally forgave $1,484,855 of unpaid interest as of December 31, 1999, but has begun to calculate "accumulated and unpaid interest" since that date. At December 31, 2001, the interest "accumulated and unpaid" was $307,888.

VIII. CONCLUSION

The examination found that WEA Property Casualty Insurance Company had admitted assets of $8,087,746; liabilities of $5,119,715; and surplus of $2,968,031 as of December 31, 2001.

With the exception of 2000, the company has increased surplus through net income each year, and premiums written and earned have also increased in all years. The company's business plan contains strategies to increase the number of policyholders and the number of products sold to each policyholder, and to improve underwriting performance in the years to come.

The company has complied with all five prior examination recommendations. The current examination resulted in seven recommendations and three reclassifications, with no adjustments to surplus.

IX. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 21 - *IT Environment*— It is recommended that the company develop procedures to ensure that critical events, such as invalid logon attempts, within the AS/400 production environment are reviewed on a timely basis.

2. Page 21 - *IT Environment*— It is recommended that the company review all modifications to ensure that only authorized program changes are being made.

3. Page 21 - *Cash and Short-Term Investments*—It is recommended that the company report outstanding drafts as a liability on the annual statement, in accordance with SSAP 2.

4. Page 22 - *Premiums and Agents Balances In Course of Collection*—It is recommended that the company report installment premiums in accordance with the NAIC Annual Statement Instructions – Property and Casualty.

5. Page 22 - *EDP Equipment and Software*—It is recommended that the company depreciate its EDP equipment and software in accordance with the guidelines established in SSAP 16.

6. Page 22 - *Reinsurance Recoverable on Unpaid Losses*—It is recommended that the company account for its reinsurance recoverable on both paid and unpaid losses in accordance with SSAP 62 and the NAIC Annual Statement Instructions – Property and Casualty.

7. Page 23 - *Payable to Parent, Subsidiaries and Afiliates*—It is recommended that the company report affiliated balances in accordance with the provisions of SSAP 64.

X. ACKNOWLEDGMENT

The courtesy and cooperation extended during the course of the examination by the officers and employees of the company are acknowledged.

In addition to the undersigned, the following representatives of the Office of the Commissioner of Insurance, State of Wisconsin, participated in the examination:

Name	Title
William C. Genne	Insurance Examiner
Russell L. Lamb	Insurance Examiner
Ryan J. Hanson	Insurance Examiner
Cruz J. Flores	Data Processing Specialist
Jerry C. DeArmond	Actuarial Specialist

Respectfully submitted,

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Examiner-in-Charge