

Districts Mutual Insurance

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Summary of the Report of the Examination of DMI conducted by the OCI

Approximately every five years the Office of the Commissioner of Insurance (OCI) conducts a compliance examination of the affairs and financial condition of insurance companies domiciled in Wisconsin. The first full scope examination of DMI has recently been conducted covering the period from incorporation in 2004 through December 31, 2007 (NOTE: a review of such 2008 transactions deemed necessary by OCI to complete the examination were included).

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

The salient sections of the report consisted of:

- History and Plan of Operation
- Management and Control
- Reinsurance
- Financial Data
- Summary of Examination Results
- Conclusion
- Summary of Comments and Recommendations

The examination resulted in the following recommendations. According to the Report only one of the recommendations related directly to an account balance on the financial reports. The error was determined to be immaterial and the surplus reported by DMI as of 12.31.07 is accepted. The other recommendations relate to oversight of service providers, development of a disaster recovery plan and documentation of DMI's custody of assets.

Recommendation 1 – Service Providers

Action taken: For the 7/1/09 renewal of the third-party agreements contract language has been clarified to state that: DMI is the owner of all files upon termination of an agreement. DMI will request a SAS 70 report from each service provider for which one is available. Note: SAS 70 (Statement on Auditing Standards Number 70) defines the standards an auditor must employ in order to assess the contracted internal controls of a service organization.

Recommendation 2 – Disaster Recovery Plan

Action recommended: DMI will compile a Disaster Recovery Plan.

Recommendation 3 – Custody of Assets

Action recommended: DMI will work with PMA or any other agency to be in compliance with Wisconsin Statute 610.23 so that information is correctly passed to DMI.

Recommendation 4 – Loss Reserve

Action recommended: DMI will assure through audit and claims review that all reported losses are properly reserved at year end per SSAP 55 (Statement of Statutory Accounting Principal Number 55), "Management shall record its best estimate of its liability for unpaid claims, unpaid losses, and loss/claim adjustment expense"

NOTE: The full report will be made available upon request.

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