

**STATE OF NORTH DAKOTA
BISMARCK, NORTH DAKOTA**

**PRELICENSING
REPORT OF EXAMINATION**

OF

**WSI INSURANCE COMPANY, INC.
BISMARCK, NORTH DAKOTA**

**AS OF
APRIL 25, 2003**

STATE OF NORTH DAKOTA
DEPARTMENT OF INSURANCE

I, the undersigned, Commissioner of Insurance of the State of North Dakota do hereby certify that I have compared the annexed copy of the Report of Examination of the

WSI Insurance Company, Inc.

Bismarck, North Dakota

as of April 25, 2003, with the original on file in this Department and that the same is a correct transcript therefrom and of the whole of said original.

IN WITNESS WHEREOF, I have hereunto
set my hand and affixed my official seal at my
office in the City of Bismarck, this _____ day of
_____, 2003.

Jim Poolman
Commissioner of Insurance

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Bismarck, North Dakota
April 25, 2003

Honorable Jim Poolman
Commissioner of Insurance
North Dakota Department of Insurance
600 East Boulevard Ave, Dept 401
Bismarck, ND 58505

Commissioner Poolman:

Pursuant to your instructions and statutory requirements, a prelicensing examination as of April 25, 2003, has been made of the financial condition and affairs of

WSI Insurance Company, Inc.

hereinafter referred to as the "Company," at its administrative office and place of business located at:

500 East Front Avenue
Bismarck, North Dakota 58501

The following report is respectfully submitted.

INTRODUCTION

This prelicensing examination was conducted by examiners from the North Dakota Insurance Department for the purpose of determining that the Company has complied with the requirements of the law according to the nature of the business proposed and is authorized to do business in the State of North Dakota. This examination was conducted in conformance with methods established by the National Association of Insurance Commissioners and included such tests of the Company's accounts and records and proposed plan of operation as deemed necessary under the circumstances.

SCOPE OF EXAMINATION

The examination consisted of a review of the Company's Articles of Incorporation and Bylaws, a verification of assets, liabilities, and surplus, and a general inquiry into the operational practices of the Company and its parents. The extent to which these items were verified is disclosed in the following narrative.

HISTORY

The Company was incorporated on February 5, 2003, under N.D. Cent. Code Chapter 26.1-05, Organization and Operation of Domestic Companies, and N.D. Cent. Code Chapter 65-08.1, Extraterritorial Coverage for Workers Compensation Insurance, other states' insurance and Employers Liability Insurance for North Dakota Employers insured by North Dakota Workers Compensation Bureau (NDWCBB). N.D. Cent. Code Chapter 10-19.1, the North Dakota Business Corporation Act, governs whenever Chapters 26.1-05 and 65-08.1 are not in conflict therewith. The Company's primary purpose is to engage in the business of casualty insurance. The Company is a wholly-owned subsidiary of NDWCBB, a North Dakota state public agency.

The Company's Articles of Incorporation provide that:

- The Company will operate on the stock plan.
- The Company's fiscal year will be July 1 to June 30.
- The Company's existence will be perpetual.

CAPITALIZATION

The Company is authorized to operate on the stock plan. The aggregate number of shares, which the Company has authority to issue, is 1,000,000 shares of common stock with a par value of \$1.00 per share.

The Board of Directors approved the issuance of 500,000 shares at a purchase price of \$1.00 per share to the Company's parent, NDWCBB. The immediate parent transferred funds totaling \$1,000,000 to the Company's bank account on February 21, 2003.

N.D. Cent. Code § 26.1-05-04 requires at least \$500,000 of authorized capital stock and \$500,000 of surplus in order for a domestic stock company to be formed under the insurance laws of North Dakota. The common stock provisions authorized in the Company's Articles of Incorporation along with the paid-in contribution satisfy the statutory requirement.

MANAGEMENT AND CONTROL

Stockholders

The Company, as defined in its Bylaws, is owned by its stockholders. North Dakota Workers Compensation Bureau is the owner of 100% of the Company's outstanding stock. The annual meeting of the stockholders is to be scheduled by the Chairman of the Board.

Directors

The Bylaws provide that the business of the corporation will be managed by or under the direction of a Board of Directors, which will consist of five directors. The Chairman of the Board serves on the Board and will have the power to appoint the four other members. Members can also be removed at any time by the Chairman of the Board.

The directors serving at the date of this examination were as follows:

<u>Name and Address</u>	<u>Principal Occupation</u>
Brent Edison 500 East Front Avenue Bismarck ND 58504-5685	Chairman of the Board, WSI Insurance CEO, NDWCBB
Tammy Rae Dolan 500 East Front Avenue Bismarck ND 58504-5685	Treasurer, WSI Insurance Vice President, Fiscal Services, NDWCB
John Larry Halvorson 500 East Front Avenue Bismarck ND 58504-5685	Secretary, WSI Insurance Vice President, Research and Development, NDWCB
Jodi Billing Bjornson 500 East Front Avenue Bismarck ND 58504-5685	Vice President of Legal Services, NDWCB
David Dvorak 500 East Front Avenue Bismarck ND 58504-5685	Director, Policyholder Services, NDWCB

Officers

The officers of the corporation shall consist of the Chairman of the Board, President, Secretary-Treasurer, and other such officers as the Board of Directors may elect in accordance with the provisions of this article.

Officers designated as of the date of this examination are as follows:

Brent Edison	Chairman
Jay Benanav	President & CEO
John Halvorson	Secretary
Tammy Rae Dolan	Treasurer

Committees

No committees have been appointed as of the date of this examination.

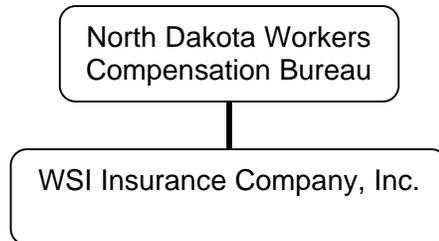
Conflict of Interest

The Board of Directors of the WSI Insurance Company has developed a conflict of interest policy statement as a reference guide to help officers and staff members understand appropriate behavior in regard to potential conflicts. No director, officer, or employee of the Company may have any position with or substantial interest in any other business enterprise, the existence of which would conflict or might reasonably be construed to conflict with the proper performance of his/her company duties or responsibilities or which might tend to affect his/her independence or

judgment. In conjunction with the annual board meeting, all directors and senior management are asked to review, complete, and sign a conflict of interest questionnaire.

ORGANIZATIONAL CHART

The Company is a member of an insurance holding company system. The relationship of the Company to its parent is shown in the following organization chart:



Parent Company

North Dakota Workers Compensation Bureau, the ultimate controlling entity, is a state owned public agency. The NDWCB transacts the business of workers compensation insurance in North Dakota only. The home and administrative office of this entity is located at 500 East Front Avenue, Bismarck, North Dakota. NDWCB owns 100% of the stock of WSI Insurance Company.

INTERCOMPANY TRANSACTIONS

Resource Agreement

A Service Agreement between WSI Insurance Company, Inc. and North Dakota Workers Compensation Bureau was signed on February 13, 2003, whereby NDWCB will provide certain services. The services provided are: (1) underwriting services, (2) customer services, (3) policyholder information services, (4) sales services through employees of the NDWCB, and (5) actuarial services including but not limited to reserve analysis and rate filing preparation. Employees that provide these services will remain employees of NDWCB. In addition to the above services, NDWCB will also provide office facilities and office equipment to WSI Insurance Company, Inc. The resource agreement also provides for those administrative or supervisory services, marketing services, or other services that may be provided by NDWCB to WSI without additional charge.

FIDELITY BOND

A fidelity bond is issued to WSI Insurance Coverage that provides coverage in the amount of \$1,000,000 for the named insured, WSI Insurance Company, Inc.

PENSION AND RETIREMENT PLANS

No pension or retirement plans exist at the date of this examination.

STATUTORY DEPOSIT

No statutory deposit is required.

TERRITORY AND PLAN OF OPERATION

The Company proposes to be a domestic licensed insurer in North Dakota licensed to provide extraterritorial workers compensation insurance, other states' insurance, and employer liability insurance to North Dakota employers insured by NDWCB. The Company intends to also be licensed in Minnesota and be able to write workers compensation insurance for North Dakota employers with employees that reside in Minnesota. The initial business plan is to utilize the North Dakota Workers Compensation Bureau for sales and marketing expertise as well as underwriting and administrative support. Claims processing resources will be provided by a managing general agent.

REINSURANCE

There were no reinsurance agreements in effect as of the date of this examination. The Company must submit its reinsurance treaties to this Department for approval prior to implementation. The Company intends to reinsure its program risks with Reinsurance Association of Minnesota that will provide coverage per claims beginning at the \$360,000 level. N.D. Cent. Code § 26.1-03-01 demands that any one risk exposure not exceed 10% of capital and surplus of the Company. The exposure between WSI Insurance Company's 10% of capital and surplus and the attachment point of \$360,000 will be covered by a surplus note agreement and surplus note with the parent company of WSI Insurance Company, Inc., North Dakota Workers Compensation Bureau.

FINANCIAL STATEMENT
as of February 28, 2003

ASSETS

Cash	\$1,000,141	
Total Admitted Assets		<u>\$1,000,141</u>

LIABILITIES AND OTHER FUNDS

Common Capital Stock	500,000	
Gross Paid In and Contributed Surplus	500,000	
Unassigned Funds	<u>141</u>	
Total Liabilities, Surplus and Other Funds		<u>\$1,000,141</u>

FINANCIAL COMMENTS

Cash		<u>\$1,000,141</u>
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Cash is deposited in the Bank of North Dakota held in a checking account.

CONCLUSION

Based on the pre-licensing examination conducted as of April 25, 2003, the financial condition of WSI Insurance Company was found to be as follows:

Assets	<u>\$1,000,141</u>	Liabilities	\$ 0
		Capital and Surplus	<u>1,000,141</u>
Total Assets	<u>\$1,000,141</u>	Total Liabilities,	<u>\$1,000,141</u>
		Capital and Surplus	

N.D. Cent. Code § 26.1-05-04 requires a domestic stock company to have at least \$500,000 of authorized capital stock and \$500,000 of surplus in order to incorporate under the insurance laws of North Dakota. The results of this examination indicate that the Company meets the capital and surplus requirements of the North Dakota insurance code. No exceptions to state law were noted.

The examiner expresses his appreciation for the assistance and cooperation extended by the officers and employees of the Company and its affiliates.

Respectfully submitted,

Timothy G. Hill, CFE
Financial Analyst
N.D. Insurance Department