Report of the Examination of

Wisconsin Reinsurance Corporation

Madison, Wisconsin

As of December 31, 2018

TABLE OF CONTENTS

Page

State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

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January 24, 2020

Honorable Mark V. Afable
Commissioner of Insurance
State of Wisconsin
125 South Webster Street
Madison, Wisconsin 53703

Commissioner:

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

WISCONSIN REINSURANCE CORPORATION
Madison, Wisconsin

and this report is respectfully submitted.

I. INTRODUCTION

The previous examination of Wisconsin Reinsurance Corporation (hereinafter WRC or the company) was conducted in 2015 as of December 31, 2014. The current examination covered the intervening period ending December 31, 2018, and included a review of such 2019 transactions as deemed necessary to complete the examination.

The examination was conducted using a risk-focused approach in accordance with the National Association of Insurance Commissioners (NAIC) *Financial Condition Examiners Handbook*. This approach sets forth guidance for planning and performing the examination of an insurance company to evaluate the financial condition, assess corporate governance, identify current and prospective risks (including those that might materially affect financial condition, either currently or prospectively), and evaluate system controls and procedures used to mitigate those risks.

All accounts and activities of the company were considered in accordance with the risk-focused examination process. This may include assessing significant estimates made by management and evaluating management’s compliance with statutory accounting principles, annual statement instructions, and Wisconsin laws and regulations. The examination does not attest to the fair presentation of the financial statements included herein. If during the course of the examination an adjustment is identified, the impact of such adjustment will be documented separately at the end of the “Financial Data” section in the area captioned "Reconciliation of Surplus per Examination."

Emphasis was placed on 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 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.

Independent Actuary's Review

An independent actuarial firm was engaged under a contract with the Office of the Commissioner of Insurance. The actuary reviewed the adequacy of the company’s loss and loss adjustment expense reserves. The actuary’s results were reported to the examiner-in-charge. As deemed appropriate, reference is made in this report to the actuary’s conclusion.

II. HISTORY AND PLAN OF OPERATION

Wisconsin Reinsurance Corporation is a Wisconsin-domiciled property and casualty insurance company. The present-day company is the successor to an unincorporated association of town mutual insurers which was initially organized in 1942 under the name Mutual Spread Loss Association (MSLA). MSLA served as a reinsurance mechanism whereby each member insurer ceded excess loss risks and participated in pooled reinsurance assumption.

MSLA was dissolved and effective December 15, 1972, the company was incorporated in Wisconsin as a mutual reinsurance company under the name Mutual Spread Loss Reinsurance, Inc. (MSLR). Ownership and control of MSLR was exercised by its member town mutual insurers, and MSLR operated as a reinsurer of risks written by the member insurers. Effective December 31, 1982, Wisconsin Town Mutual Reinsurance Company (WTMRC) was merged into MSLR. WTMRC was originally incorporated in November 1931, and at the time of its merger into MSLR was licensed as a town mutual reinsurer under ch. 612, Wis. Stat. The mutual reinsurer, MSLR, was the surviving entity following the 1982 merger; subsequent to the merger, the company changed its name to Wisconsin Reinsurance Corporation (Mutual) (WRC-Mutual). The company remained a mutual corporation for nine years following the merger, operating as an assessable mutual insurer through December 31, 1990.

During 1990 and 1991, WRC-Mutual demutualized and converted to a stock insurance company, pursuant to s. 611.76, Wis. Stat. The policyholders of WRC-Mutual were primarily town mutual insurance companies, which are subject to administrative restrictions regarding permitted investment in common stock assets. To enable the conversion of WRC-Mutual to a stock company and the issuance of WRC capital stock to town mutual policyholders of WRC-Mutual, this office issued an order that authorizes town mutual insurers to hold the common stock of the converted WRC-Mutual and to report the entire amount as admitted assets, subject to certain conditions and restrictions.

WRC-Mutual converted to a stock insurance company effective January 1, 1991. Upon conversion, WRC-Mutual’s December 31, 1990, surplus of $4,638,485 was distributed to its members by issuing 309,665 shares of Class A common capital stock having a book value of

$14.98 per share. The converted stock corporation amended its name to Wisconsin Reinsurance Corporation (WRC or the company), the name presently used by the company. The company is owned by approximately 69 small mutual insurers domiciled in Wisconsin and other states who are, in most instances, also long-term reinsurance clients of the company. A small number of shares are owned by about 450 natural persons who had purchased personal umbrella liability policies from the company in the five years prior to the conversion. There are no shareholders who own 10% or more of WRC stock.

During 1991, WRC obtained capital funds of $6,395,000 through the sale of Series A convertible preferred stock to WRC common stock shareholders, and used the proceeds to capitalize and incorporate 1st Auto & Casualty Insurance Company (1st Auto) as an insurance company subsidiary. 1st Auto commenced operations in September 1991. In 1997, WRC obtained an additional $3,225,000 of capital funds from the sale of Series B cumulative preferred stock to WRC common stock shareholders. The company contributed $2,000,000 of the proceeds from its 1997 preferred stock issuance to 1st Auto.

WRC is licensed in Wisconsin and Iowa and is recognized as an authorized reinsurer in South Dakota, North Dakota, Missouri, Illinois, and Arkansas. The company assumed the following premiums during 2018:

Wisconsin	$26,430,863	56.7%
Missouri	8,003,642	17.2
Iowa	7,221,347	15.5
South Dakota	2,411,809	5.2
Illinois	2,075,435	4.4
Arkansas	452,454	1.0
Total	$46,595,550	100.0%

WRC's primary business is the reinsurance of property and nonproperty liability risks written on a direct basis by small mutual insurance companies. The company's reinsurance clients are typically small insurers that write direct coverages primarily within rural and small-town market segments and who focus on farmowners and homeowners property insurance business. The reinsurance products written by the company include pro rata quota share, surplus share, and excess of loss contracts on both property and casualty risks, as well as aggregate excess and catastrophe coverages. Business lines reinsured by the company include lines of fire and allied lines, homeowners, farmowners, commercial property and liability, personal umbrella policies, and earthquake. WRC reinsurance products are marketed through the efforts of the company's reinsurance marketing representatives.

The company is subject to a regulatory accounting permitted practice established in 2000 with the approval of the Wisconsin Office of the Commissioner of Insurance. The permitted practice allows the company to delay recording a liability for "reinsurance payable on paid losses" until a payable claim has been outstanding for 90 days, following notification of a loss from the ceding company. The practice allows such liability to remain in the company's "loss reserve" account for the 90-day period. The practice was allowed by the Commissioner because WRC has manual loss reserve and reinsurance accounting systems. The company routinely pays such claims within 30 to 60 days, and, by virtue of the permitted practice, the company is spared having to review records in its manual reinsurance system and reclassify individual loss balances as "reinsurance payable on paid losses."

The following table is a summary of the net insurance premiums written by the company in 2018. 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**
Fire	$	$ 4,220,802	$ 1,317,352	$ 2,903,450
Allied lines		4,220,802	1,317,352	2,903,450
Other liability – occurrence		242,059	192,552	49,507
Reinsurance – non-proportional assumed property		29,385,117	6,662,436	22,722,681
Reinsurance – non-proportional assumed liability	_	8,526,771	1,161,509	7,365,262
Total All Lines	$	$46,595,551	$10,651,201	$35,944,350

III. MANAGEMENT AND CONTROL

Board of Directors

The board of directors consists of nine members. Three directors are elected annually to serve a three-year term. Officers are elected at the board's annual meeting. The chairman of the board is paid an annual retainer fee of $20,000. All of the other board members are paid an annual retainer of $6,000. Directors receive a per diem of $400 per day for each board or committee meeting attended.

Currently the board of directors consists of the following persons:

Name and Residence	Principal Occupation	Term Expires
Kathy Beach Mellen, Wisconsin	General Manager Northern Finnish Mutual Insurance Company	2022
Jeff Dusek River Falls, Wisconsin	General Manager River Falls Mutual Insurance Company	2020
Lisa Johnson Sturtevant, Wisconsin	General Manager Yorkville & Mt. Pleasant Mutual Insurance Co.	2022
Christopher Kelley Lebanon, Missouri	General Manager Laclede Mutual Insurance Company	2020
Howard Schwartz Oshkosh, Wisconsin	President and Chief Executive Officer Ellington Mutual Insurance Company	2021
Mark Splinter Wausau, Wisconsin	President and Chief Executive Officer Mutual of Wausau Insurance Corporation	2021
Bruce Thomas Algona, Iowa	President Heartland Mutual Insurance Association	2021
Marty Wynn Festus, Missouri	General Manager Meramec Valley Mutual Insurance Company	2022
Tony Wilke Loyal, Wisconsin	President Little Black Mutual Insurance Company	2020

Officers of the Company

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

Name	Office	2018 Compensation
Terry Wendorff	President and Chief Executive Officer	$608,541
Jason Fogg	Chief Operating Officer	396,393
Todd Lentz	Senior Vice President—Reinsurance	261,866
Cathleen McAnaugh	Senior Vice President	233,392
Lisa Russell	General Counsel and Secretary	233,888
Ann Carlson	Vice President—Finance and Treasurer	201,658
Larry Bray	Vice President—Mutual Assistance	192,164
Suma Elwell	Vice President—Corporate Development	185,022
Randolph Retterath	Vice President—Information Systems	178,031
Peggy Mickelson	Vice President—Administration and Assistant Secretary	174,402
Sara Mohrbacher	Vice President—Agency	121,164

Committees of the Board

The company's bylaws allow for the formation of certain committees by the board of directors. The committees at the time of the examination are listed below:

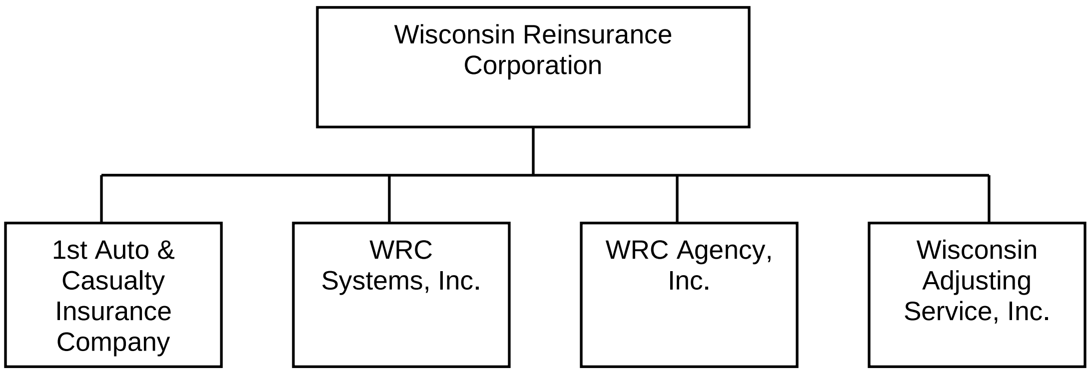
Nominating Committee
Lisa Johnson, Chair
Kathy Beach
Marty Wynn

Audit Committee
Entire Board

IV. AFFILIATED COMPANIES

Wisconsin Reinsurance Corporation is the ultimate parent 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 follows the organizational chart.

Organizational Chart
As of December 31, 2018



1st Auto & Casualty Insurance Company

1st Auto & Casualty Insurance Company is a Wisconsin-domiciled stock property and casualty insurer. 1st Auto is a direct writer of primarily private passenger automobile liability and physical damage insurance, personal and farm umbrella and liability, and commercial automobile liability and physical damage insurance. As of December 31, 2018, the audited statutory-basis financial statements of 1st Auto reported assets of $23,499,095, liabilities of $13,784,770, and capital and surplus of $9,714,325. Operations for 2018 produced a net income of $(1,103,913). 1st Auto is the subject of a separate examination report concurrent with that of WRC.

WRC Systems, Inc.

WRC Systems, Inc., had provided computer hardware, computer software, and system support services primarily to town mutual clients of WRC insurers. As of January 1, 2008, WRC Systems, Inc., effectively ceased operations and has been retained as a non-operating shell corporation. As of December 31, 2018, the unaudited GAAP-basis financial statement of WRC Systems, Inc., reported total assets of $0, liabilities of $0, and net equity of $0. Operations for 2018 show no activity.

WRC Agency, Inc. (Agency)

WRC Agency, Inc., provides insurance brokerage services through which agents of WRC client companies may place coverage for lines of insurance that the client companies are unable to offer as a direct insurer. As of December 31, 2018, the unaudited GAAP-basis financial statements of Agency reported total assets of $173,945, liabilities of $191,294, and net equity of $(17,350). Operations for 2018 resulted in net income of $(17,350).

Wisconsin Adjusting Service, Inc. (WASI)

Wisconsin Adjusting Service, Inc., provides loss adjustment services related to liability claims for WRC and its client companies. Services provided to WRC are pursuant to an administrative services agreement. As of December 31, 2018, the unaudited GAAP-basis financial statements of WASI reported total assets and total liabilities of $186,708 and net owner's equity of $0. Operations for 2018 resulted in net income of $0.

Agreements with Affiliates

Services Agreements

WRC maintains separate services agreements with each of its active subsidiaries. Each agreement was executed on January 1, 2017. All the agreements are continuous with respect to automatic annual renewals. Pursuant to the agreements, WRC provides accounting, data processing, software access, marketing, receptionist, secretarial services, and all other administrative services necessary for the respective affiliates to conduct their normal business operations. WRC accounts for the time spent by its employees on behalf of the respective affiliates in providing administrative services. Postage, office supplies, and copier charges are reimbursed at actual cost. Pursuant to the agreements, WRC costs allocated to the affiliates and WRC direct expenses on behalf of the respective affiliates are reimbursed by the affiliates. The intercompany amounts due shall be determined within 30 days of the end of the month, and final settlement of intercompany amounts is due within 90 days from the 27th of every month.

The services agreements between WRC and WASI and between WRC and Agency each provides that WRC will reimburse its subsidiary for all costs necessary to bring the equity position of the subsidiary equal to zero. In addition, the service agreement between WRC and

1st Auto was amended effective as of December 31, 2018. This was done to change the compensation arrangement to incorporate the new policy administration system. Eighty percent of the capital costs for the new policy administration system will be allocated from WRC to 1st Auto, and the leasing fee will be over 15 years from the effective date of each implementations' go-live date. If 1st Auto were to discontinue its use of the new policy administration system, any remaining balance of the capital costs allocated from WRC to 1st Auto shall be expensed by 1st Auto within 90 days. All direct expenses (e.g., maintenance, hosting, training, etc.) associated with 1st Auto's use of the system are allocated from WRC to 1st Auto.

Office Lease Agreements

WRC maintains separate office lease agreements with each of its active affiliates, executed on October 1, 2011, for a term of 15 months from October 1, 2011, to and including January 1, 2013. All the agreements may be extended for an additional term or terms under the same terms and conditions. The agreements provide for the lease of office space in the WRC headquarters building, and the agreements are identical except for their respective specifications of leased WRC space and applicable annual rents. The agreements provide that WRC pays for maintenance and upkeep of the leased spaces and for utility services, excluding telephone.

Consolidated Federal Income Tax Agreement

WRC, 1st Auto, Agency, and WASI are party to a consolidated federal income tax agreement, executed February 1, 2014. The agreement provides that WRC will file a consolidated federal tax return for all parties to the agreement. The method used for allocation of federal taxes among the agreement participants is as prescribed by the Internal Revenue Service, and any regular tax liability of participants will be allocated based on the individual taxable income of each participant in proportion to the total consolidated taxable income. Final settlement of tax allocation is due by the respective participants within 90 days of the 27th day of the month of the filing of the consolidated federal tax return.

V. REINSURANCE

The company's reinsurance portfolio and strategy are described below. A list of the companies that have a significant amount of reinsurance in force at the time of the examination follows. The contracts contained proper insolvency provisions.

Nonaffiliated Ceding Contracts

The following is a summary of the company's nonaffiliated ceding reinsurance contracts. The company cedes portions of its written business to third-party reinsurers for risk management purposes and to mitigate risk in the event of catastrophic loss.

1. Type: First and Second Multiple Line Excess of Loss Reinsurance

Reinsurers: The brokered reinsurers and their respective participation for both first and second layers were as follows:

Reinsurer	Participation
AXIS Reinsurance Company	8.33%
Hannover Rück SE	8.34
QBE Reinsurance Corporation	12.50
Renaissance Reinsurance U.S. Inc.	30.00
SCOR Reinsurance Company	8.33
The Toa Reinsurance Company of America	20.00
XL Reinsurance America	12.50
Total	100.00%

Reinsured: Wisconsin Reinsurance Corporation and 1st Auto & Casualty Insurance Company

Scope: Business classified by the company as fire and allied lines, homeowners, farmowners, and commercial business, including earthquake, assumed by the company under Class B — Pro Rata and/or Class C — Excess Per Risk property reinsurance contracts or Class A — Casualty reinsurance contracts issued to companies reinsured by WRC and personal and farm liability business assumed from 1st Auto

With respect to 1st Auto, the contract also includes business classified by 1st Auto as private passenger and commercial automobile liability business

First Layer:

Retention:

A. Property
$300,000 ultimate net loss any one risk, each loss

B. Casualty
$300,000 ultimate net loss each loss occurrence

	C. Combined property, casualty, and net umbrella $300,000 loss liability for combined coverages each loss occurrence. For losses involving coverages of A and B, recoveries made under these coverages will inure to the benefit of the reinsurance provided under C.	
Coverage:	A. Property 700,000 excess of $300,000 ultimate net loss any one risk, each loss. Reinsurance limit $2,100,000 any one loss occurrence.	
	B. Casualty $700,000 excess of $300,000 ultimate net loss each loss occurrence	
	C. Combined property and casualty $300,000 excess of $300,000 ultimate net loss liability each loss occurrence for combined coverages	

<u>Second Layer:</u>

Retention:	A. Property $1,000,000 ultimate net loss any one risk, each loss
	B. Casualty $1,000,000 ultimate net loss each loss occurrence
Coverage:	A. Property $1,500,000 excess of $1,000,000 ultimate net loss any one risk, each loss and $3,000,000 in all respects all risks involved in any one occurrence. Reinsurance limit $6,000,000 in all during the term of the contract.
	B. Casualty $1,000,000 excess of $1,000,000 ultimate net loss each loss occurrence and $3,000,000 in all during the term of the contract.
Effective date:	January 1, 2019 to January 1, 2020
Termination:	The company may terminate or reduce a reinsurer's percentage share at any time by giving 30 days' written notice to the reinsurer in the event that certain named circumstances occur.

2. Type: Umbrella Liability Quota Share Reinsurance

Reinsurers:	AXIS Reinsurance Company	8.33%
	Hannover Rück SE	8.34
	QBE Reinsurance Corporation	12.50
	Renaissance Reinsurance U.S. Inc.	30.00
	SCOR Reinsurance Company	8.33
	The Toa Reinsurance Company of America	20.00
	XL Reinsurance America	12.50
	Total	100.00%

Reinsured:	Wisconsin Reinsurance Corporation and 1st Auto & Casualty Insurance Company
Scope:	Business classified by the company as personal and commercial umbrella liability as written on a direct basis by 1st Auto or assumed by the company
Retention:	30% of the first $1,000,000 of net liability per policy, per occurrence
Coverage:	Part 1 70% of the first $1,000,000 of net liability per policy, per occurrence Part 2 100% of $4,000,000 excess of $1,000,000 net liability per policy, per occurrence
Commissions:	33.0% of ceding premium
Effective date:	January 1, 2019 to January 1, 2020
Termination:	The company may terminate or reduce a reinsurer's percentage share at any time by giving 30 days' written notice to the reinsurer in the event that certain named circumstances occur.

3. Type: Property Per Risk Reinsurance

Reinsurers:		
	AXIS Reinsurance Company	8.33%
	Hannover Rück SE	8.34
	Lloyd's — 2007 NVA	4.17
	Lloyd's — 5886 WBC	8.33
	Renaissance Reinsurance U.S. Inc.	30.00
	SCOR Reinsurance Company	8.33
	The Toa Reinsurance Company of America	20.00
	XL Reinsurance America	12.50
	Total	100.00%

Reinsured:	Wisconsin Reinsurance Corporation and 1st Auto & Casualty Insurance Company
Scope:	Business classified by the company as property business, but not limited to fire and allied lines, the property portions of homeowners, farmowners and commercial business, including earthquake, assumed by the company under Class B — Pro Rata and/or Class C — Excess Per Risk property reinsurance contracts issued to companies reinsured by WRC
Retention:	2,500,000 ultimate net loss any one risk, each loss
Coverage:	$7,500,000 any one risk, each loss excess of $2,500,000 any one risk, each loss. Reinsurance limit $7,500,000 losses raising out of any one loss occurrence or $22,500,000 all losses during the term of the contract
Effective date:	January 1, 2019 to January 1, 2020

Termination:	The company may terminate or reduce a reinsurer's percentage share at any time by giving 30 days' written notice to the reinsurer in the event that certain named circumstances occur.

4. Type: Excess Casualty Clash Reinsurance

Reinsurers:	AXIS Reinsurance Company	8.33%
	Hannover Rück SE	8.34
	Lloyd's — 0435 FDY	25.00
	Lloyd's — 0609 AUW	33.34
	Lloyd's — 4444 CNP	16.66
	SCOR Reinsurance Company	8.33
	Total	100.00%

Reinsured:	Wisconsin Reinsurance Corporation and 1st Auto & Casualty Insurance Company
Scope:	Business classified by the company as homeowners, farmowners, and commercial business, assumed by the company under Class A — Casualty reinsurance contracts and personal and farm liability business assumed from 1st Auto. With respect to 1st Auto, the contract also includes business classified by the company as private passenger and commercial automobile liability business.
Retention:	$2,000,000 ultimate net loss each occurrence
Coverage:	$5,000,000 excess of $2,000,000 ultimate net loss each occurrence. Reinsurance limit $10,000,000 in all during the term of the contract.
Effective date:	January 1, 2019 to January 1, 2020
Termination:	The company may terminate or reduce a reinsurer's percentage share at any time by giving 30 days' written notice to the reinsurer in the event that certain named circumstances occur.

5. Type: Excess Catastrophe Reinsurance

Reinsurers:

Reinsurer	First Layer	Second Layer	Third Layer
Axis Reinsurance Company	8.33%	8.33%	8.33%
Hannover Re (Bermuda) Ltd.	2.00	4.00	4.00
Hannover Rück SE	8.34	8.34	8.34
Houston Casualty Company	0.00	0.00	5.75
Lansforsakringar Sak Forsakringsaktiebolag	0.00	2.00	2.00
Lloyd's Underwriters	41.00	40.00	31.75
Munich Reinsurance America, Inc.	10.00	10.00	10.00
R+V Versicherung AG	20.00	13.00	12.50
Renaissance Reinsurance U.S. Inc.	2.00	2.00	3.00
SCOR Reinsurance Company	8.33	8.33	8.33
Sirius International Insurance Corporation	0.00	4.00	6.00
Total	100.00%	100.00%	100.00%

Reinsured: Wisconsin Reinsurance Corporation and 1st Auto & Casualty Insurance Company

Scope: Business classified by the company as section I of homeowners and farmowners, fire and allied lines and commercial business, including earthquake, issued to companies reinsured by WRC

The agreement also includes property business classified by 1st Auto and assumed by WRC.

	First Excess	Second Excess	Third Excess
Retention	$ 3,000,000	$10,000,000	$ 20,000,000
Reinsurer's Limit Per Occurrence	7,000,000	10,000,000	60,000,000
Reinsurer's Annual Limit	21,000,000	20,000,000	120,000,000

Effective date: January 1, 2019 to January 1, 2020

Termination: The company may terminate or reduce a reinsurer's percentage share at any time by giving 30 days' written notice to the reinsurer in the event that certain named circumstances occur.

6. Type: Aggregate Catastrophe Excess of Loss Reinsurance

Reinsurers:

Axis Reinsurance Company	8.33%
Hannover Re (Bermuda) Ltd.	8.00
Hannover Rück SE	8.34
Lansforsakringar Sak Forsakringsaktiebolag	1.00
Lloyd's Underwriters	28.75
Munich Reinsurance America, Inc.	12.50
R+V Versicherung AG	19.75
Renaissance Reinsurance U.S. Inc.	5.00
SCOR Reinsurance Company	8.33
Total	100.00%

Reinsured: Wisconsin Reinsurance Corporation and 1st Auto & Casualty Insurance Company

Scope: Business classified by the company as section I of homeowners and farmowners, fire and allied lines, and commercial business, including earthquake, issued to companies reinsured by WRC

The agreement also includes property business classified by 1st Auto and assumed by WRC.

Retention: $7,000,000 aggregate ultimate net loss for the term of contract. losses arising out of loss occurrences may not contribute to the ultimate net loss unless the company's total losses arising out of the loss occurrence exceed $750,000.

Coverage: $13,000,000 excess $7,000,000 aggregate ultimate net loss for the term of contract.

Effective date: January 1, 2019 to January 1, 2020

Termination: The company may terminate or reduce a reinsurer's percentage share at any time by giving 30 days' written notice to the reinsurer in the event that certain named circumstances occur.

7. Type: Earthquake Quota Share Retrocession Reinsurance

Reinsurer: Palomar Specialty Insurance Company

Reinsured: Wisconsin Reinsurance Corporation

Scope: Business classified as earthquake business by member mutual companies and reinsured by the company

Member mutual companies includes 1st Auto & Casualty Insurance Company

Coverage: 100% of the company's liability, including loss adjustment expense

Commissions: 18.5% of ceding premium

Effective date: December 31, 2015

	Termination:	As of any January 1, by either party giving 90 days' prior notice
8.	Type:	Casualty Retrocession Quota Share Reinsurance
	Reinsurer:	Grinnell Mutual Reinsurance Company
	Scope:	All business classified by Frontier - Mt Carrol Mutual Insurance Company as casualty business excluding umbrella
	Coverage:	35% of net retained liability
	Commissions:	10% of ceding premium
	Effective date:	January 1, 2019 to January 1, 2020

Affiliated Assuming Contracts

The following is a summary of the company's affiliated assuming reinsurance contracts with its subsidiary, 1st Auto & Casualty Insurance Company.

1.	Type:	Personal Liability Quota Share Reinsurance
	Reinsured:	1st Auto & Casualty Insurance Company
	Scope:	Business classified by 1st Auto as personal liability business
	Coverage:	100% of 1st Auto's net liability
	Commissions:	35% of ceded premium
	Effective date:	January 1, 2019
	Termination:	On any January 1, by either party giving 90 days' prior notice
2.	Type:	Automobile Physical Damage Catastrophe Excess Reinsurance
	Reinsured:	1st Auto & Casualty Insurance Company
	Scope:	Business classified by 1st Auto as automobile physical damage business
	Retention:	$300,000 of ultimate net loss liability each loss occurrence, plus 2.5% of the excess up to $1,200,000
	Coverage:	97.5% of ultimate net loss in excess of $300,000 each loss occurrence, up to the limit of 97.5% of $1,200,000 each loss occurrence with two reinstatements
	Effective date:	January 1, 2019
	Termination:	On any January 1, by either party giving 90 days' prior notice
3.	Type:	Aggregate Excess of Loss Reinsurance
	Reinsured:	1st Auto & Casualty Insurance Company

Scope:	Business classified by 1st Auto as automobile, umbrella, and personal liability business
Retention:	Ultimate net loss equal to 59% of 1st Auto's net earned premium for the calendar year, plus 2.5% of 20.0% in excess of 59%
Coverage:	97.5% of 20.0% in excess of 59% of 1st Auto's net earned premium for the calendar year
Effective date:	January 1, 2019
Termination:	On any January 1, by either party giving 90 days' prior notice

Nonaffiliated Assuming Contracts

The following is a summary of the company's nonaffiliated assumption reinsurance contracts. The ceding insurers include town mutual, farm mutual, or unrestricted mutual insurance companies domiciled in Wisconsin, Arkansas, Illinois, Iowa, Missouri, and South Dakota. There were one-year and two-year reinsurance contracts effective in 2019. Unless otherwise noted, the effective date of all the reinsurance agreements is January 1, 2019, except one of the two-year reinsurance contracts was for the term of January 1, 2018, to January 1, 2020. The agreements may be terminated on January 1st by either party providing at least 90 days' prior written notice prior to the expiration of the agreements.

1.	Type:	Class AQ1—Casualty Quota Share Reinsurance
	Number of contracts:	25
	Scope:	All business written by the cedant(s) classified as casualty or liability business
	Coverage:	100% of each and every quota share loss, including loss adjustment expense, subject to the maximum policy limits of $1,000,000 per occurrence, $1,000,000 split limits, $25,000 for medical payments per person, and $25,000 for medical payments per accident for personal lines
	Commissions:	Varies by contract, ranging from 15% to 25% of ceding premium
2.	Type:	Class AX1—Casualty Excess of Loss Reinsurance
	Number of contracts:	52
	Scope:	All business written by the cedant(s) classified as casualty or liability business
	Retention:	Varies by contract, generally ranging from $1,500 to $75,000 per occurrence

	Coverage:	100% each and every loss including loss adjustment expense in excess of the ceding company's retention, subject to the maximum policy limits of $1,000,000 per occurrence, $1,000,000 split limits, $25,000 for medical payments per person, and $25,000 for medical payments per accident for personal lines
3.	Type:	Class AU—Combination Umbrella Quota Share and Excess of Loss Reinsurance
	Number of contracts:	6
	Scope:	All business written by the cedant(s) classified as umbrella liability
	Retention:	Part 1 - Up to 5% of the first $1,000,000 Part 2 - $1,000,000 per occurrence
	Coverage:	Part 1 - Up to 99% quota share of the first $1,000,000 Part 2 - Varies by contract, generally ranging from 100% of $1,000,000 in excess of Part 1 to $4,000,000 in excess of Part 1
4.	Type:	Class B1—First Surplus Reinsurance
	Number of contracts:	51
	Scope:	All business written by the cedant(s) classified as property business
	Retention:	Pro rata according to the individual risk cession, retention varies by contract, generally with a range of $75,000 to $5,000,000
	Coverage:	Pro rata portion of each and every loss including loss adjustment expense; automatic cession up to $2,000,000 of pro rata reinsurance coverage of each risk
	Commissions:	Based on a base commission rate and a profit commission rate
5.	Type:	Class BQ1—Property Quota Share Reinsurance
	Number of contracts:	1
	Scope:	All business written by the cedant(s) classified as property business
	Retention:	Pro rata portion
	Coverage:	Pro rata portion
	Commissions:	Flat rated, varies by contract
6.	Type:	Class ML1—First Multi Line Per Risk Excess of Loss Reinsurance
	Number of contracts:	2
	Scope:	All business written by the cedant(s) classified as property, casualty, or liability business, excluding business classified as umbrella liability or worker's compensation or automobile insurance

Retention: Varies by contract

Coverage: 100% of each loss and every loss, including loss adjustment expense, in excess of the ceding company's retention up to maximums established by individual contracts

7. Type: Class ML2—Second Multi Line Per Risk Excess of Loss Reinsurance

   Number of contracts: 2

   Scope: All business written by the cedant(s) classified as property, casualty, or liability business, excluding business classified as umbrella liability or worker's compensation or automobile insurance

   Retention: Varies by contract

   Coverage: 100% of each loss and every loss, including loss adjustment expense, in excess of the ceding company's retention up to maximums established by individual contracts

8. Type: Class C1—First Per Risk Excess of Loss Reinsurance

   Number of contracts: 86

   Scope: All business written by the cedant(s) classified as property business

   Retention: Varies by contract. This contract and/or other Class C contracts reduce the ceding company's retention under the Class B1 – First Surplus contracts.

   Coverage: 100% of each loss and every loss, including loss adjustment expense, in excess of the ceding company's retention up to maximums established by individual contracts

9. Type: Class C2—Second Per Risk Excess of Loss Reinsurance

   Number of contracts: 81

   Scope: All business written by the cedant(s) classified as property business

   Retention: Varies by contract. This contract and/or other Class C contracts reduce the ceding company's retention under the Class B1 – First Surplus contracts.

   Coverage: 100% of each loss and every loss, including loss adjustment expense, in excess of the ceding company's retention up to maximums established by individual contracts

10. Type: Class C3—Third Per Risk Excess of Loss Reinsurance

    Number of contracts: 30

    Scope: All business written by the cedant(s) classified as property business

	Retention:	Varies by contract. This contract and/or other Class C contracts reduce the ceding company's retention under the Class B1 – First Surplus contracts.
	Coverage:	100% of each loss and every loss, including loss adjustment expense, in excess of the ceding company's retention up to maximums established by individual contracts
11.	Type:	Class CT1—First Catastrophe Excess of Loss Reinsurance
	Number of contracts:	4
	Scope:	All property business written by cedant(s)
	Retention:	Fixed dollar amount that varies by contract
	Coverage:	100% of the ceding company's losses, including loss adjusting expenses in excess of the ceding company's retention, for each loss occurrence
12.	Type:	Class D1—First Aggregate Excess of Loss Reinsurance
	Number of contracts:	88
	Scope:	All business written by the cedant(s)
	Attachment Point:	Aggregate losses, expressed as a percentage of net premiums written, varies by contract
	Coverage:	Expressed as a percentage of net premiums written, varies by contract, 100% of aggregate amount of net losses, including loss adjustment expenses, occurring during an annual period, in excess of the ceding company's attachment point percentage up to the limit established by individual contracts up to the next layer, if any
13.	Type:	Class D1CAC—Combination Aggregate Catastrophe and First Aggregate Excess of Loss Reinsurance—Part 1
	Number of contracts:	1
	Scope:	All business written by the cedant(s)
	Retention:	Fixed dollar amount that varies by contract
	Coverage:	100% of aggregate amount of ultimate net loss, including loss adjustment expenses, occurring during each annual period, in excess of the ceding company's retention up to the limit established by individual contracts, subject to the franchise deductible per loss occurrence
14.	Type:	Class D1CAC—Combination Aggregate Catastrophe and First Aggregate Excess of Loss Reinsurance—Part 2
	Number of contracts:	1
	Scope:	All business written by the cedant(s)

Retention: Expressed as a percentage of net premium, varies by contract

Coverage: Expressed as a percentage of net premiums written, varies by contract, 100% of the aggregate amount of net losses, including loss adjustment expenses, occurring during an annual period, in excess of the ceding company's retention percentage up to the limit

15. Type: Class D2—Second Aggregate Excess of Loss Reinsurance

Number of contracts: 83

Scope: All business written by the cedant(s)

Attachment Point: Aggregate losses, expressed as a percentage of net premiums written, varies by contract

Coverage: Expressed as a percentage of net premiums written, varies by contract, 100% of aggregate amount of net losses, including loss adjustment expenses, occurring during an annual period, in excess of the ceding company's attachment point percentage up to the limit established by individual contracts up to the next layer, if any

16. Type: Class D3—Third Aggregate Excess of Loss Reinsurance

Number of contracts: 1

Scope: All business written by cedant(s)

Retention: Aggregate losses, expressed as a percentage of net premiums written, which varies by contract

Coverage: Expressed as a percentage of net premiums written, varies by contract, 100% of the aggregate amount of net losses, including loss adjustment expenses, occurring during an annual period, in excess of the ceding company's attachment point percentage up to the limit established by individual contracts

17. Type: Class EQQS—Earthquake Property Quota Share Reinsurance

Number of contracts: 8

Scope: All business written by cedant(s) as a result of loss or losses resulting from the peril of "shake" under endorsements to policies or classified as earthquake business

Retention: 0%

Coverage: 100% of the ceding company's liability remaining after cessions to any other pro rata reinsurance, including loss adjustment expense

Commissions: 15% of ceding premium

18. Type: Class FXS—Facultative Excess Reinsurance

Number of assuming companies: 28

	Scope:	All individual policies in excess of $350,000 up to $10,00,000 mutual policy limit depending on the underlying per risk limit of the reinsured
	Retention:	Per risk capacity
	Coverage:	100% of the policy limit in excess of the retention
19.	Type:	Aggregate Excess of Loss Reinsurance
	Reinsured	Policyholders Mutual Insurance Company (PMIC)
	Scope:	All business written by PMIC
	Attachment Point:	$175,000
	Coverage:	100% of the aggregate amount of net losses, including loss adjustment expenses, occurring during an annual period, in excess of PMIC's attachment point up to $5,825,000
	Effective date:	January 1, 2019
	Termination:	Continuously thereafter until terminated
20.	Type:	Property Retrocession Quota Share Reinsurance
	Reinsured:	Grinnell Mutual Reinsurance Company
	Scope:	All business classified by Frontier - Mt Carrol Mutual Insurance Company as property business under property only contracts
	Coverage:	35% of net retained liability
	Commissions:	10% of ceding premium
	Effective date:	January 1, 2019 to January 1, 2020
21.	Type:	Reinsurance and Retrocessional Agreement
	Reinsured:	NAMIC Insurance Company, Inc. (NAMICO)
	Scope:	Business classified by NAMICO as directors and officers liability, professional liability, errors and omissions liability, trustees and fiduciaries liability, cyber liability, and employment practices liability
	Retention:	NAMICO retains 50% of the first $1,000,000 of each claim, each policy, and in the aggregate where applicable and 15% of the next $4,000,000 of each claim, each policy, and in the aggregate in excess of $1,000,000 where applicable
	Coverage:	0.89751% of (50% of the first $1,000,000 of each claim, each policy, and in the aggregate where applicable and 85% of the next $4,000,000 of each claim, each policy, and in the aggregate where applicable). The company's maximum aggregate share not to exceed 1.79502% of the NAMICO Reinsurance Facility, subject to

reallocation by the loss of another retrocessionaire due to insolvency or liquidation, or otherwise cessation of doing business.

Commissions:	35% of ceding premium
Effective date:	January 1, 2017
Termination:	Continuously thereafter until terminated

VI. FINANCIAL DATA

The following financial statements reflect the financial condition of the company as reported to the Commissioner of Insurance in the December 31, 2018, annual statement. 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." 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.

Wisconsin Reinsurance Corporation
Assets
As of December 31, 2018

	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	$56,969,722	$	$56,969,722
Stocks:			
Preferred stocks	762,720		762,720
Common stocks	17,693,835		17,693,835
Real estate:			
Occupied by the company	4,034,589		4,034,589
Cash, cash equivalents, and short-term investments	7,390,145		7,390,145
Receivables for securities	15,608		15,608
Investment income due and accrued	460,611		460,611
Premiums and considerations:			
Uncollected premiums and agents' balances in course of collection	3,074,224		3,074,224
Deferred premiums, agents' balances, and installments booked but deferred and not yet due	966,256		966,256
Reinsurance:			
Amounts recoverable from reinsurers	1,265,681		1,265,681
Net deferred tax asset	524,804		524,804
Electronic data processing equipment and software	4,223,377	4,103,856	119,521
Furniture and equipment, including health care delivery assets	411,355	411,355	
Receivable from parent, subsidiaries, and affiliates	948,583		948,583
Write-ins for other than invested assets:			
Cash Surrender Value – Life Insurance	228,541		228,541
Other Accounts Receivable	136,405		136,405
Third Party Postage Deposit	6,000		6,000
Prepaid Expenses	314,217	314,217	
Total Assets	$99,426,673	$4,829,428	$94,597,245

Wisconsin Reinsurance Corporation
Liabilities, Surplus, and Other Funds
As of December 31, 2018

Losses		$23,987,546
Loss adjustment expenses		4,451,358
Other expenses (excluding taxes, licenses, and fees)		252,596
Taxes, licenses, and fees (excluding federal and foreign income taxes)		199,226
Current federal and foreign income taxes		529,344
Unearned premiums		4,877,601
Ceded reinsurance premiums payable (net of ceding commissions)		(160,348)
Funds held by company under reinsurance treaties		5,419
Provision for reinsurance		12,000
Payable to parent, subsidiaries, and affiliates		308,676
Total Liabilities		34,463,418
Common capital stock	$ 397,664	
Preferred capital stock	4,607	
Gross paid in and contributed surplus	13,141,129	
Unassigned funds (surplus)	48,081,127	
Less treasury stock, at cost:		
Common	1,490,700	
Surplus as Regards Policyholders		60,133,827
Total Liabilities and Surplus		$94,597,245

Wisconsin Reinsurance Corporation
Summary of Operations
For the Year 2018

Underwriting Income		
Premiums earned		$36,109,681
Deductions:		
Losses incurred	$21,660,090	
Loss adjustment expenses incurred	3,395,689	
Other underwriting expenses incurred	10,651,019	
Total underwriting deductions		35,706,798
Net underwriting gain (loss)		402,883
Investment Income		
Net investment income earned	1,631,910	
Net realized capital gains (losses)	36,780	
Net investment gain (loss)		1,668,690
Other Income		
Write-ins for miscellaneous income:		
Other Income	106,253	
Lease Income	817,815	
Total other income		924,068
Net income (loss) after dividends to policyholders but before federal and foreign income taxes		2,995,641
Federal and foreign income taxes incurred		363,739
Net Income		$ 2,631,902

Wisconsin Reinsurance Corporation
Cash Flow
For the Year 2018

Premiums collected net of reinsurance			$36,161,744
Net investment income			2,132,826
Miscellaneous income			924,068
Total			39,218,638
Benefit- and loss-related payments		$14,947,031	
Commissions, expenses paid, and aggregate write-ins for deductions		14,531,795	
Federal and foreign income taxes paid (recovered)		627,032	
Total deductions			30,105,858
Net cash from operations			9,112,780
Proceeds from investments sold, matured, or repaid:			
Bonds	$13,574,831		
Stocks	101,378		
Miscellaneous proceeds	(13,315)		
Total investment proceeds		13,662,894	
Cost of investments acquired (long-term only):			
Bonds	15,508,701		
Stocks	795,398		
Total investments acquired		16,304,099	
Net cash from investments			(2,641,205)
Cash from financing and miscellaneous sources:			
Capital and paid in surplus less treasury stock		(851,697)	
Dividends to stockholders		703,063	
Other cash provided (applied)		(856,701)	
Net cash from financing and miscellaneous sources			(2,411,461)
Reconciliation:			
Net Change in Cash, Cash Equivalents, and Short-Term Investments			4,060,114
Cash, cash equivalents, and short-term investments:			
Beginning of year			3,330,031
End of Year			$ 7,390,145

Wisconsin Reinsurance Corporation
Compulsory and Security Surplus Calculation
December 31, 2018

Assets		$ 94,597,245
Less investments in insurance subsidiaries		9,714,325
Add security surplus of insurance subsidiaries		2,927,710
Less liabilities		34,463,418
Adjusted surplus		53,347,212
Annual premium:		
Lines other than accident and health	$37,790,350	
Factor	20%	
Compulsory surplus (subject to a minimum of $2 million)		7,558,070
Compulsory Surplus Excess (Deficit)		$ 45,789,142
Adjusted surplus (from above)		$ 53,347,212
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%)		10,581,298
Security Surplus Excess (Deficit)		$42,765,914

Wisconsin Reinsurance Corporation
Analysis of Surplus
For the Four-Year Period Ending December 31, 2018

The following schedule details items affecting surplus during the period under examination as reported by the company in its filed annual statements:

	2018	**2017**	**2016**	**2015**
Surplus, beginning of year	$61,141,796	$59,186,778	$52,047,668	$42,535,471
Net income	2,631,902	3,879,773	9,235,482	10,363,584
Change in net unrealized capital gains/losses	(1,426,269)	727,415	(166,343)	240,900
Change in net deferred income tax	(333,983)	(670,479)	583,139	(431,378)
Change in nonadmitted assets	(816,175)	(1,191,214)	(1,954,628)	107,373
Change in provision for reinsurance	(11,000)	17,000	(18,000)	140,000
Cumulative effect of changes in accounting principles			500,000	
Capital changes:				
Transferred to surplus	(3,020)	(75,176)	61,172	
Surplus adjustments:				
Paid in	(491,980)	77,594	(483,517)	
Dividends to stockholders	(695,753)	(737,743)	(668,305)	(580,901)
Change in treasury stock	(356,691)	(5,152)	156,110	(5,381)
Write-ins for gains and (losses) in surplus:				
Reserve for Preferred Stock Series B Redemption	495,000	(67,000)	(106,000)	(322,000)
Surplus, End of Year	$60,133,827	$61,141,796	$59,186,778	$52,047,668

Wisconsin Reinsurance Corporation
Insurance Regulatory Information System
For the Four-Year Period Ending December 31, 2018

The company's NAIC Insurance Regulatory Information System (IRIS) results for the period under examination are summarized below. Unusual IRIS results are denoted with asterisks and discussed below the table.

	Ratio	2018	2017	2016	2015
#1	Gross Premium to Surplus	77%	78%	82%	96%
#2	Net Premium to Surplus	60	60	67	79
#3	Change in Net Premiums Written	-3	-8	-3	3
#4	Surplus Aid to Surplus	0	0	0	0
#5	Two-Year Overall Operating Ratio	89	77	66	76
#6	Investment Yield	1.9*	1.7*	1.4*	1.4*
#7	Gross Change in Surplus	-2	3	14	22
#8	Change in Adjusted Surplus	-1	3	15	22
#9	Liabilities to Liquid Assets	46	50	48	53
#10	Agents' Balances to Surplus	5	5	3	3
#11	One-Year Reserve Development to Surplus	-4	-7	-8	-10
#12	Two-Year Reserve Development to Surplus	-8	-13	-16	-16
#13	Estimated Current Reserve Deficiency to Surplus	-9	-11	-8	-3

Ratio No. 6 measures the percentage of annual income on the company's investment portfolio. The company's unusual results for each year during the examination period were primarily due to the low-interest-rate environment. Additionally, the unusual results were due to the company having a substantial portion of its assets invested in its subsidiary insurer, 1st Auto & Casualty Insurance Company, and 1st Auto did not pay dividends during the examination period. As of year-end 2018, WRC's investment in 1st Auto was valued at $9.7 million and equaled approximately 11% of WRC's total invested assets.

Growth of Wisconsin Reinsurance Corporation

Year	Admitted Assets	Liabilities	Surplus as Regards Policyholders	Net Income
2018	$94,597,245	$34,463,418	$60,133,827	$ 2,631,902
2017	96,111,838	34,970,042	61,141,796	3,879,773
2016	96,347,217	37,160,439	59,186,778	9,235,482
2015	87,793,295	35,745,627	52,047,668	10,363,584
2014	84,104,014	41,568,543	42,535,471	4,526,257

Year	Gross Premium Written	Net Premium Written	Premium Earned	Loss and LAE Ratio	Expense Ratio	Combined Ratio
2018	$46,595,551	$35,944,350	$36,109,681	69.4%	27.1%	96.5%
2017	47,438,290	36,929,247	37,818,253	66.6	23.5	90.1
2016	48,805,334	39,932,634	39,889,656	47.0	21.9	68.9
2015	49,967,094	41,284,415	41,808,759	46.9	21.3	68.2
2014	50,821,283	39,918,920	42,485,577	72.1	17.2	89.3

During the period under examination, the company's admitted assets increased by 12.5% and liabilities decreased by 17.1%, resulting in a 41.4% increase to surplus. Net income fluctuated throughout the examination period due to the nature of the company assuming business from the small mutual insurance companies which write business in the Midwest region. The lower net income in 2017 and 2018 was due to significant storms.

Gross premiums, net premiums, and premiums earned decreased each year during the examination period, mainly due to the loss of insured small mutual insurance companies, reduced rates for some of the insured small mutual insurance companies, as well as non-renewal of the Auto Liability Excess of Loss Reinsurance contract with its subsidiary, 1st Auto, in 2015. The increase in expense ratio during the examination period was primarily due to the purchase and implementation of a new policy administration system.

Reconciliation of Surplus per Examination

No adjustments were made to surplus as a result of the examination. The amount of surplus reported by the company as of December 31, 2018, is accepted.

VII. SUMMARY OF EXAMINATION RESULTS

Compliance with Prior Examination Report Recommendations

There were four 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. Disaster Recovery Plan—It is again recommended that the company periodically test the user department's portion of its disaster recovery plan.

   Action—Compliance.

2. Custodial Agreement—It is recommended that the company amend its custodial agreement to include specific language prescribed in the NAIC *Financial Condition Examiners Handbook*.

   Action—Compliance.

3. Executive Compensation—It is recommended that the company include all gross direct and indirect compensation paid or accrued during the year on its Report of Executive Compensation in accordance with ss. 601.42 and 611.62 (4), Wis. Stat.

   Action—Compliance.

4. Holding Company Filing—It is recommended that the company include sufficient detail in their Form B filings to comply with ss. Ins. 40.03 and 40.15, Wis. Adm. Code.

   Action—Compliance.

Summary of Current Examination Results

This section 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.

Disclosure of Conflict of Interest

The examination's review of compliance with disclosure of conflict of interest requirements for its officers, directors, and responsible employees revealed that, in 2018, the company began to use a conflict of interest questionnaire that did not meet the standards set forth by the Wisconsin Office of the Commissioner of Insurance conflicts of interest directive, nor was it designed to evaluate compliance with s. Ins. 611.60, Wis. Stat., as it relates to a material transaction between the company and its directors and officers or between the company and another person in which any of its directors or officers has a material interest. The conflict of interest questionnaire did not address whether there had been a change in the individual's material interest or affiliation, which was in conflict or was likely to conflict with the official duties of such person. It is recommended that the company enhance its procedure for disclosing to its board of directors any material interest or affiliation on the part of any of its officers, directors, and responsible employees which conflicts or is likely to conflict with the official duties of such person, in accordance with the Wisconsin Office of the Commissioner of Insurance directive dated March 9, 1989.

VIII. CONCLUSION

Wisconsin Reinsurance Corporation is a Wisconsin-domiciled property and casualty insurer. Effective January 1, 1991, the company converted to a stock insurance company as permitted under s. 611.76, Wis. Stat. WRC organized and incorporated 1st Auto & Casualty Insurance Company as a wholly owned operating insurance subsidiary in 1991.

The company's primary business is the provision of various programs of property and liability reinsurance on risks written by small mutual property and casualty insurers. The company also reinsures a portion of business written by its subsidiary, 1st Auto, comprised primarily of personal lines automobile insurance coverages.

During the period under examination, the company's admitted assets increased by 12.5% and liabilities decreased by 17.1%, resulting in a 41.4% increase to surplus. Net income fluctuated throughout the examination period due to the nature of the company assuming business from the small mutual insurance companies which write business in the Midwest region. The lower net income in 2017 and 2018 was due to significant storms.

Gross premiums, net premiums, and premiums earned decreased each year during the examination period, mainly due to the loss of insured small mutual insurance companies, reduced rates for some of the insured small mutual insurance companies, as well as non-renewal of the Auto Liability Excess of Loss Reinsurance contract with its subsidiary, 1st Auto, in 2015. The increase in expense ratio during the examination period was primarily due to the purchase and implementation of a new policy administration system.

The examination resulted in no adjustments to surplus or reclassifications of account balances. The examination determined that the company was in compliance with all four recommendations made by the previous examination. The current examination resulted in one recommendation.

IX. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 36 - Disclosure of Conflict of Interest—It is recommended that the company enhance its procedure for disclosing to its board of directors any material interest or affiliation on the part of any of its officers, directors, and responsible employees which conflicts or is likely to conflict with the official duties of such person, in accordance with the Wisconsin Office of the Commissioner of Insurance directive dated March 9, 1989.

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
Joshua Daggett	Insurance Financial Examiner
James Lindell	Insurance Financial Examiner and ACL Specialist
David Jensen, CFE	IT Specialist
Jerry DeArmond, CFE	Reserve Specialist

Respectfully submitted,

Xiaozhou Ye
Examiner-in-Charge