

Report
of the
Examination of
Cities and Villages Mutual Insurance Company
Wauwatosa, Wisconsin
As of December 31, 2017

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State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

Scott Walker, Governor
Theodore K. Nickel, Commissioner

Wisconsin.gov

September 21, 2018

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Honorable Theodore K. Nickel
Commissioner of Insurance
State of Wisconsin
125 South Webster Street
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Commissioner:

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

CITIES AND VILLAGES MUTUAL INSURANCE COMPANY
Wauwatosa, Wisconsin

and this report is respectfully submitted.

I. INTRODUCTION

The previous examination of Cities and Villages Mutual Insurance Company (CVMIC or the company) was conducted in 2013 as of December 31, 2012. The current examination covered the intervening period ending December 31, 2017, and included a review of such 2018 transactions as deemed necessary to complete the examination.

The examination was conducted using a modified 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.

II. HISTORY AND PLAN OF OPERATION

The company was organized in 1987 by 20 municipalities to provide liability insurance for municipal operations pursuant to s. 611.23, Wis. Stat. Section 611.23, Wis. Stat., exempts CVMIC from chs. 604 to 607, 612 to 619, 625, and 646, Wis. Stat. These chapters' provisions were determined unnecessary for the protection of the interests of municipalities and their citizens.

CVMIC was created for the purpose of providing member communities with stable liability insurance coverage and focused risk management services previously not available to public entities in Wisconsin. The company was originally capitalized with \$25 million in taxable revenue bonds issued by Wisconsin Municipal Insurance Commission (WMIC), a joint powers authority, organized under s. 66.30, Wis. Stat. (s. 66.30 was renumbered to s. 66.0301 in 1999). WMIC's bonds were collateralized by general obligation bonds issued by member municipalities. Investment earnings (as policy dividends) were paid to participating municipalities to enable them to reduce or eliminate the need to collect property taxes for their general obligation bonds. WMIC refinanced the original bonds with \$22.8 million taxable revenue refund bonds in 1997. The final payment on WMIC's issued bonds was made on April 1, 2007.

New municipality admission is subject to certain conditions as defined by the participating members. Currently, there are 48 member municipalities. New members do not make any contributions and no premium surcharges are levied. One new member joined in 2016 and one in 2017, and one member left in 2014.

On July 24, 2015, CVMIC purchased 30 shares of \$1 par value common stock of Municipal Property Insurance Company (MPIC), a stock company, for a total investment of \$3,000,000. MPIC is a startup company that commenced business on September 1, 2015, to write property insurance for municipalities in the state of Wisconsin. MPIC was capitalized by three separate municipal mutual insurance companies, including CVMIC. Each investor contributed \$3,000,000 in capital for an initial capitalization of \$9,000,000, and purchased 30 shares each of common stock. The three investors have equal voting rights.

CVMIC continues to pay dividends to participating municipalities on a pro rata basis that takes into account each individual member's paid premiums, loss experience, and self-insured retention. The CVMIC board of directors declares dividends based upon an annual assessment of the company's surplus, the adequacy of reserves, and net income.

CVMIC writes municipal liability insurance to member municipalities in the state of Wisconsin, including general liability, public officials' liability, law enforcement liability, workers' compensation, commercial auto liability, and auto physical damage coverage. Extensive risk management services are an integral part of the company's operating philosophy. CVMIC loss control, safety, and risk management services are currently directed with the following:

- Five full-time staff providing loss control, safety, and risk management services
- Two full-time employment practices liability specialists
- One full-time Distance Learning Specialist providing e-learning and webinars in both safety/risk management and employment practices liability
- Develop and maintain a rolling three-year work plan for each member
- During 2017, 18,303 employees received 38,340 hours of training in 709 on-site, regional, E-Learning, and web training programs.
- Provide advanced training for supervisors through three academies Pre-Supervisory (4 one-day programs), Supervisory (8 two-day sessions), and a Management Series (16 one-day sessions)
- Offer a Risk Management Academy (16 one-day sessions)
- Provide specialized on-site audits in state of Wisconsin, safety and professional services, compliance, human resources policy review, and fleet safety, hiring, and accident investigation

For liability policies, CVMIC provides coverage of \$2 million in excess of each member's self-insured retention (SIR). These SIRs range from \$10,000 to \$225,000. Members' current SIRs are as follows:

1. Antigo	\$ 25,000	27. Monroe	\$ 50,000
2. Appleton	200,000	28. Neenah	100,000
3. Baraboo	25,000	29. New Berlin	50,000
4. Beloit	50,000	30. New London & Utilities	17,500
5. Brookfield	50,000	31. Oak Creek	75,000
6. Brown Deer	37,500	32. Onalaska	17,500
7. Cedarburg	17,500	33. Plymouth	25,000
8. Cedarburg L&W *	17,500	34. Racine	225,000
9. Cudahy	125,000	35. Reedsburg	37,500
10. Elkhorn	25,000	36. Reedsburg Utility *	10,000
11. Fitchburg	37,500	37. Rhinelander	17,500
12. Glendale	25,000	38. Sheboygan	125,000
13. Green Bay	225,000	39. South Milwaukee	37,500
14. Greendale	25,000	40. Stevens Point	25,000
15. Hartford	50,000	41. Stoughton	25,000
16. Jackson	20,000	42. Stoughton Utility *	25,000
17. Janesville	100,000	43. Sun Prairie	50,000
18. Kenosha	125,000	44. Superior	75,000
19. Kimberly	17,500	45. Verona	25,000
20. Manitowoc	50,000	46. Waupun & Utilities	37,500
21. Menasha	25,000	47. Wausau	50,000
22. Menasha Utility *	50,000	48. Wauwatosa	125,000
23. Menomonee Falls	125,000	49. West Allis	150,000
24. Middleton	37,500	50. Whitefish Bay	50,000
25. Milton	25,000	51. Whitewater	25,000
26. Monona	37,500	52. Wisconsin Dells	17,500

* Not considered a separate member

As a risk management service to its members, the company provides equipment breakdown, crime, employment practice liability, excess workers' compensation, and excess liability coverage through group purchase arrangements with other insurance carriers. These excess coverages are outlined in the "Member Excess Group Purchase Programs" section of this report. Member participation in the various coverages and program offerings in 2017 are shown by the following table:

**Cities and Villages Mutual Insurance Company
Coverage and Program Member Participation**

Category by City Size

	Class 1	Class 2	Class 3	
	Over 50,000	15,000 to 50,000	Under 15,000	Total
Coverage:				
Liability	6	19	23	48
1st Dollar Workers' Compensation	0	14	23	37
Auto Physical Damage (APD)				
Members	6	19	23	48
Member Utilities	0	1	3	4
Group Purchase Policies:				
Excess Workers' Compensation	4	5	0	9
Excess Liability (\$5MM x \$5MM)	6	19	23	48
Employment Practices Liability	6	19	23	48
Equipment Breakdown	3	18	22	43
Crime	4	18	23	45
Cyber	6	19	23	48

All business is produced on a direct basis. CVMIC policies are assessable for up to 125% of the annual premium.

CVMIC also offers third-party workers' compensation claim administration services to seven of its members. Separate service fees for each indemnity claim and each medical claim are billed to the member. Claims that were reported to a previous third-party administrator and later administered by CVMIC are billed lesser fees for the life of the file.

In Wisconsin, municipalities have limited exposure to large general liability and automobile claims due to a tort cap of \$50,000 in indemnity losses for general liability, \$250,000 for automobile liability, and \$150,000 for wrongful death. This tort cap does not apply to the miscellaneous liability coverage or for federal court cases.

The company writes direct premium only in the state of Wisconsin. CVMIC is not authorized to write business in other states.

Organizational Objectives

The company was organized to provide a long-term solution to municipal liability insurance programs. Advantages of the program, as cited by the company, in comparison with purchasing commercial insurance by individual cities and villages, include the following:

- 1) To charge relatively level premiums, thereby protecting municipalities from commercial insurance pricing cycles.
- 2) To provide cost savings resulting from the elimination of insurance company profits and insurance agent commissions and fees.
- 3) To enable members of a pooled liability program with significant loss reserves to negotiate with commercial insurance companies for better terms for excess insurance or reinsurance coverages.
- 4) To enable member municipalities to meet their liability insurance needs by controlling their own insurance program.
- 5) To provide municipalities with a means of formal training on risk management concerns.

The company has established underwriting and claims administration standards, and liability claims control quality guidelines. Failure of a municipality to follow such standards and guidelines or failure to pay premium when due may, under certain circumstances, result in cancellation of coverage.

The following table is a summary of the net insurance premiums written by the company in 2017. 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
Workers' Compensation	\$ 8,460,978	\$0	\$ 0	\$ 8,460,978
Other Liability - Occurrence	3,119,160		111,375	3,007,785
Commercial Auto Liability	1,039,720		37,125	1,002,595
Auto Physical Damage	<u>1,456,486</u>			<u>1,456,486</u>
Total All Lines	<u>\$14,076,344</u>	<u>\$0</u>	<u>\$148,500</u>	<u>\$13,927,844</u>

Liability, workers' compensation, and auto physical damage programs are experience rated and provide the opportunity to return premium through a dividend program. Liability program premiums are based on a comprehensive, actuarially reviewed, underwriting protocol and reflect the self-insured retention selected by each member.

III. MANAGEMENT AND CONTROL

Board of Directors

The board of directors consists of seven members elected by member community representatives. The seven-member board is comprised of two directors representing large communities (populations exceeding 50,000), two directors representing medium-sized communities (populations 15,000 to 50,000), and two directors representing small communities (populations less than 15,000). The seventh director is elected at-large, for a one-year term. All other terms are for two years and are elected on a staggered basis. Officers are elected at the board's annual meeting. The board members currently receive no compensation or meeting expense reimbursement for serving on the board other than mileage. Mileage is reimbursed at the current federal tax allowable reimbursement rate.

Currently, the board of directors consists of the following persons:

Name and Member Municipality	Principal Occupation	Term Expires
Scott Letteney City of Racine	City Attorney	2019
Kaye Matucheski City of Antigo	Clerk/Treasurer	2019
Tami Mayzik City of South Milwaukee	City Administrator	2019
Judy Radke City of New London	Treasurer	2018
Robert Scott City of Brookfield	Finance Director	2018
Steve Stanczak City of Kenosha	Director of Personnel and Labor Relations	2018
John Walther Village of Jackson	Village Administrator	2018

Officers of the Company

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

Name	Office	2017 Compensation
Stephen Stanczak	President	\$ 0
Kaye Matucheski	Vice President	0
Robert Scott	Secretary/Treasurer	0
Kenneth Horner	Chief Executive Officer	228,731
Michelle Voskuil	Chief Financial Officer	133,530

Committees of the Board

CVMIC currently has no committees of the board of directors. The CVMIC board of directors has, however, appointed presidential committees. Presidential committees are formed to address items referred by the board and make recommendations back to the board. Presidential committees have no independent authority other than to provide a recommendation to the board. They serve strictly in an advisory role. The board has final authority and must take an affirmative vote to concur or act on any recommendation from a presidential committee. The following constitute the current list of presidential committees:

- Claims
- Finance
- Personnel (inactivated as of February 14, 2018)

The principal purpose for presidential committees is to formulate information in their respective areas, which the board of directors uses for decision-making and voting processes. The operation of these committees gives member communities a greater opportunity for participation in governance and focus on risk management.

Each member community has appointed a CVMIC member representative. Presidential committees are comprised of member representatives. They do not have a size limit—CVMIC's goal is to foster member participation for the advisory role of presidential committees.

IV. AFFILIATED COMPANIES

CVMIC is affiliated with one insurance company, MPIC, and has a working relationship with two organizations described below.

Municipal Property Insurance Company

As noted earlier in this report, on July 24, 2015, MPIC was capitalized by three separate municipal mutual insurance companies, including CVMIC, in equal amounts. Therefore, CVMIC is one-third owner of MPIC with a total initial investment of \$3,000,000. MPIC's board of directors is comprised of officers and directors of the three companies, with each company having equal voting rights. The three companies are related to each other only through their ownership in MPIC. Other than shared ownership of MPIC, the three companies are not considered to be part of a group.

MPIC commenced business on September 1, 2015, to provide property insurance to Wisconsin municipalities. As of December 31, 2017, the audited financial statements of MPIC reported assets of \$14,238,767, liabilities of \$5,445,765, and policyholders' surplus of \$8,793,002. Operations for 2017 produced net income of \$229,229.

Wisconsin Municipal Insurance Commission (WMIC)

WMIC, a joint powers authority organized under s. 66.30, Wis. Stat., was formed for the purpose of providing financing for CVMIC. WMIC provided the original capital funding to CVMIC in the form of taxable revenue bonds of \$25 million. WMIC's bonds were collateralized by general obligation bonds issued by CVMIC member municipalities. WMIC's bonds were repaid in 2007.

All CVMIC members are WMIC members. CVMIC and WMIC also have a common board of directors with the board meeting of one following the board meeting of the other. CVMIC incurs expenses on behalf of WMIC and provides personnel and administrative services on behalf of WMIC. The company estimates these annual expenses to be under \$100.

Association of Government Risk Pools (AGRiP)

AGRiP, a non-profit trade organization, was formed to provide a forum for intergovernmental risk pools to exchange information on issues for operation of group insurance purchasing programs. Through AGRiP, there is a recognition program which is based on self-evaluation by the pool of their compliance with the AGRiP advisory standards for public entity risk pools. CVMIC has earned recognition for AGRiP compliance with the advisory standards. This recognition has been renewed through January 1, 2020.

V. REINSURANCE

CVMIC members are each liable, in the event of a liability loss, for their own determined self-insured retention (see list on page 5). After this amount has been paid to the claimant by the member, CVMIC begins paying up to the limit of \$2,000,000 dollars. Historically, CVMIC used excess insurance coverage for insuring members' risk above its retention. In 2017, CVMIC entered into an excess of loss reinsurance contract with Berkley Insurance Company to reinsure liability coverage above CVMIV's retention. Any claims payable amount greater than \$2,000,000 dollars will be the responsibility of the Berkley Insurance Company, up to \$5,000,000. Claim amounts that are still outstanding, after \$5,000,000 and up to \$10,000,000, are then paid by a group purchase program policy facilitated by CVMIC. The policy premiums for the last layer (\$5,000,000 to \$10,000,000) are not paid by CVMIC but by the members themselves.

In addition to the excess of loss reinsurance contract for liability coverage, CVMIC has two direct excess insurance contracts, one for auto physical damage and one for workers' compensation coverage.

Ceding Reinsurance Contracts

1. Type: Liability Excess of Loss Reinsurance Agreement
Reinsurer: Berkley Insurance Company
Scope: Policies classified as Bodily Injury, Property Damage, Personal Injury, and Public Official Errors and Omissions
Retention: \$2,000,000 each loss occurrence
Coverage: \$3,000,000 each loss occurrence for any individual member or combination of members
\$1,000,000 for extra contractual obligations and loss in excess of policy limits, any one loss occurrence
\$30,000,000 annual aggregate limit
Premium: Based on population of member municipalities at the rate of \$.12 per capita.
Effective date: January 1, 2017
Termination: January 1, 2018

Excess Insurance Contracts

1. Type: Vehicle Physical Damage Insurance Agreement
Reinsurer: Evanston Insurance Company
Scope: Loss or damage to vehicles caused by accidental collision of the vehicle with another object or by upset.
Retention: \$50,000 each loss occurrence
Coverage: \$ 1,500,000 any one vehicle
\$15,000,000 any one occurrence
Premium: Annual rate of \$.0481 per \$100 of insurable values
Effective date: January 1, 2017
Termination: January 1, 2018
2. Type: Excess Workers Compensation and Employers Liability Insurance Policy
Reinsurer: Arch Insurance Company
Scope: Workers compensation and employers liability
Retention: Part One and Part Two—Excess Workers' Compensation Insurance and Excess Employer's Liability Insurance
\$600,000 each accident or disease occurrence.
Coverage: Part One—Excess Workers Compensation Statutory
Part Two—Excess Employers Liability
\$2,000,000, each accident or disease, each employee
Premium: Based on annual payroll of member municipalities at the rate of \$.1335 per \$100
Effective date: January 1, 2017
Termination: January 1, 2018

Member Excess Group Purchase Programs

Lastly, CVMIC facilitates the purchase of group purchase policies, as a service to its members. These are programs that provide specialized coverage to specific members, with the members themselves providing the total of the premium payments and directly contacting the insurer for claim servicing.

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, 2017, 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.

Cities and Villages Mutual Insurance Company
Assets
As of December 31, 2017

	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	\$29,412,282	\$ 0	\$29,412,282
Stocks:			
Preferred stocks	1,678,213	0	1,678,213
Common stocks	16,819,852	0	16,819,852
Real estate:			
Occupied by the company	2,418,805	0	2,418,805
Cash, cash equivalents, and short-term investments	1,428,695	0	1,428,695
Receivables for securities	96,599	0	96,599
Investment income due and accrued	157,664	0	157,664
Electronic data processing equipment and software	249,869	231,933	17,936
Furniture and equipment, including health care delivery assets	173,594	170,029	3,565
Write-ins for other than invested assets:			
Excess of loss receivable	39,019	0	39,019
Prepaid license fees and premiums	168,202	168,202	0
Accounts receivable	<u>32,290</u>	<u>0</u>	<u>32,290</u>
Total Assets	<u>\$52,675,084</u>	<u>\$570,164</u>	<u>\$52,104,920</u>

Liabilities, Surplus, and Other Funds
As of December 31, 2017

Losses		\$16,406,633
Loss adjustment expenses		2,678,952
Other expenses (excluding taxes, licenses, and fees)		234,801
Current federal and foreign income taxes		119
Advance premium		470,040
Dividends declared and unpaid:		
Policyholders		1,836,230
Amounts withheld or retained by company for account of others		390,969
Write-ins for liabilities:		
Post retirement benefit liabilities		497,715
Dividends accrued for current year		<u>1,000,000</u>
Total Liabilities		23,515,459
Unassigned funds (surplus)	<u>\$28,589,461</u>	
Surplus as Regards Policyholders		<u>28,589,461</u>
Total Liabilities and Surplus		<u>\$52,104,920</u>

Cities and Villages Mutual Insurance Company
Summary of Operations
For the Year 2017

Underwriting Income		
Premiums earned		\$13,927,844
Deductions:		
Losses incurred	\$6,376,575	
Loss adjustment expenses incurred	4,217,594	
Other underwriting expenses incurred	<u>4,174,792</u>	
Total underwriting deductions		<u>14,768,961</u>
Net underwriting gain (loss)		(841,117)
Investment Income		
Net investment income earned	1,125,264	
Net realized capital gains (losses)	<u>1,171,890</u>	
Net investment gain (loss)		2,297,154
Other Income		
Write-ins for miscellaneous income:		
Non-member training sessions	14,929	
Commission income	<u>186,970</u>	
Total other income		<u>201,899</u>
Net income (loss) before dividends to policyholders and before federal and foreign income taxes		1,657,936
Dividends to policyholders		<u>2,312,668</u>
Net Loss		<u>(\$ 654,732)</u>

Cities and Villages Mutual Insurance Company
Cash Flow
For the Year 2017

Premiums collected net of reinsurance		\$13,948,163
Net investment income		2,276,780
Miscellaneous income		<u>201,899</u>
Total		16,426,842
Benefit- and loss-related payments	\$ 7,587,781	
Commissions, expenses paid, and aggregate write-ins for deductions	4,013,704	
Dividends paid to policyholders	<u>3,064,398</u>	
Total deductions		<u>14,665,883</u>
Net cash from operations		1,760,959
Proceeds from investments sold, matured, or repaid:		
Bonds	\$11,110,508	
Stocks	<u>8,757,034</u>	
Total investment proceeds		19,867,542
Cost of investments acquired (long-term only):		
Bonds	12,992,918	
Stocks	<u>6,738,248</u>	
Total investments acquired		<u>19,731,166</u>
Net cash from investments		136,376
Cash from financing and miscellaneous sources:		
Other cash provided (applied)	<u>(1,545,260)</u>	
Net cash from financing and miscellaneous sources		<u>(1,545,260)</u>
Reconciliation:		
Net Change in Cash, Cash Equivalents, and Short-Term Investments		352,075
Cash, cash equivalents, and short-term investments:		
Beginning of year		<u>1,076,620</u>
End of Year		<u>\$ 1,428,695</u>

**Cities and Villages Mutual Insurance Company
Compulsory and Security Surplus Calculation
December 31, 2017**

Assets		\$52,104,920
Less liabilities		<u>23,515,459</u>
Adjusted surplus		28,589,461
Annual premium, net of policyholders' dividends:		
Lines other than accident and health	\$11,615,176	
Factor	<u>20%</u>	
Compulsory surplus (subject to a minimum of \$2 million)		<u>2,323,035</u>
Compulsory Surplus Excess (Deficit)		<u>\$26,266,426</u>
Adjusted surplus (from above)		\$28,589,461
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%)		<u>3,252,249</u>
Security Surplus Excess (Deficit)		<u>\$25,337,212</u>

**Analysis of Surplus
For the Five-Year Period Ending December 31, 2017**

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

	2017	2016	2015	2014	2013
Surplus, beginning of year	\$28,408,468	\$28,144,339	\$30,028,221	\$28,984,832	\$24,994,086
Net income	(654,732)	(136,476)	353,008	1,879,139	1,501,562
Change in net unrealized capital gains/losses	1,206,721	389,470	(2,197,950)	(564,853)	1,480,197
Change in nonadmitted assets	(370,996)	11,135	(38,940)	10,058	1,008,987
Prior period adjustments for post retirement benefits	<u>0</u>	<u>0</u>	<u>0</u>	<u>(280,955)</u>	<u>0</u>
Surplus, End of Year	<u>\$28,589,461</u>	<u>\$28,408,468</u>	<u>\$28,144,339</u>	<u>\$30,028,221</u>	<u>\$28,984,832</u>

**Cities and Villages Mutual Insurance Company
Insurance Regulatory Information System
For the Five-Year Period Ending December 31, 2017**

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	2017	2016	2015	2014	2013
#1 Gross Premium to Surplus	49%	49%	48%	43%	45%
#2 Net Premium to Surplus	49	49	48	43	45
#3 Change in Net Premiums Written	0	2	4	1	18
#4 Surplus Aid to Surplus	0	0	0	0	0
#5 Two-Year Overall Operating Ratio	108*	107*	108*	107*	109*
#6 Investment Yield	2.2*	2.1*	1.7*	1.2*	1.7*
#7 Gross Change in Surplus	1	1	-6	4	16
#8 Change in Adjusted Surplus	1	1	-6	4	16
#9 Liabilities to Liquid Assets	50	48	46	43	43
#10 Agents' Balances to Surplus	0	0	0	0	0
#11 One-Year Reserve Development to Surplus	9	-3	-3	-8	2
#12 Two-Year Reserve Development to Surplus	7	-4	-8	-3	-2
#13 Estimated Current Reserve Deficiency to Surplus	-5	-5	0	-8	-1

Ratio No. 5 measures the company's profitability over the previous two-year period.

Unusual values are considered to be over 100. The exceptional results in 2013 through 2017 were primarily due to policyholders' dividends, which varied from \$2.3 million paid in 2017 to \$3.7 million paid in 2016. CVMIC's combined ratio was below 100% in four out of five years under examination.

Ratio No. 6 measures the company's return on investments. This ratio measures the investment yield on an annual basis. Unusual values are considered to be over 6.5 or under 3.0. The exceptional results in 2013 through 2017 were due to a lower net investment income earned due to a low interest rate environment. This has been slowly improving—in 2017, the CVMIC result of 2.2 was equal to the 2017 industry mean of 2.2.

Growth of Cities and Villages Mutual Insurance Company

Year	Admitted Assets	Liabilities	Surplus as Regards Policyholders	Net Income
2017	\$52,104,920	\$23,515,459	\$28,589,461	(\$654,732)
2016	49,487,962	21,079,394	28,408,568	(136,476)
2015	47,328,640	19,184,301	28,144,339	353,008
2014	50,607,089	20,578,868	30,028,221	1,879,139
2013	48,233,345	19,248,512	28,984,833	1,501,562
2012	42,052,521	17,058,436	24,994,085	39,094

Year	Gross Premium Written	Net Premium Written	Premium Earned	Loss and LAE Ratio	Expense Ratio	Combined Ratio
2017	\$14,076,344	\$13,927,844	\$13,927,844	76.1%	28.5%	104.6%
2016	13,934,080	13,934,080	13,934,080	57.3	27.0	84.3
2015	13,622,592	13,622,592	13,622,592	63.0	28.5	91.5
2014	13,043,691	13,043,691	13,043,691	55.6	25.8	81.4
2013	12,950,350	12,950,350	12,950,350	67.5	25.2	92.7
2012	10,933,904	10,933,904	10,933,904	61.9	26.0	87.9

Gross and net premium written have increased 28.7%% and 27.4%, respectively, during the examination period. The premium increase in 2013 (18%) since 2012 was due to adding two new members for the liability and auto physical damage program, and adding five new members for the workers' compensation program. Historically, the company utilized an excess insurance coverage strategy and, therefore, gross and net written premium were always the same amounts. In 2017, CVMIC entered into a reinsurance contract to cede losses under liability coverage, resulting in net premium written being lower than gross written premium. All premiums are due on January 1 and are fully earned by year-end. The loss and loss adjusting expense (LAE) ratio had remained relatively stable, ranging between 55.6% in 2014 and 67.5% in 2013. However, it increased to 76.1% in 2017. This increase was due to net premiums written being basically flat in 2017 compared to 2016, while estimates increased for losses and loss adjusting expenses related to claims that occurred in prior accident years and currently in the court system.

The company has reported a net income after policyholders' dividends in three of the five years under examination. Dividends to policyholders have averaged \$3.2 million in the exam period, with a low of \$2.3 million reported in 2017. Admitted assets and policyholders' surplus have increased 23.9% and 14.4%, respectively, during the period under examination.

Reconciliation of Surplus per Examination

The examination made no adjustment or reclassification to the company's reported capital and surplus.

VII. SUMMARY OF EXAMINATION RESULTS

Compliance with Prior Examination Report Recommendations

There were three 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. Annual Statement Schedule D Reporting—It is recommended that the company amortize discounts and premiums on all bonds on a go-forward basis, in accordance with SSAP No. 26 and SSAP No. 43R.

Action—The company has complied with this recommendation.

2. Annual Statement Schedule P Reporting—It is recommended that the company complete Schedule P – Analysis of Losses and Loss Expense in accordance with the NAIC Annual Statement Instructions – Property and Casualty.

Action—The company has partially complied with this recommendation.

3. Incurred Losses and Loss Adjustment Expenses—It is recommended that the company properly allocate loss and loss adjustment expenses on future annual statements.

Action—The company has complied with this recommendation.

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.

Annual Statement Schedule P Reporting

Prior to 2017, CVMIC did not have any reinsurance contracts in place. Instead, it had excess insurance contracts with its members. These contracts do not meet the statutory requirements for reinsurance and, therefore, any balances resulting from the application of these contracts should not be reported as reinsurance balances. The prior examination found that the company reported ceded loss payments and ceded loss reserves in Part 1 – Summary of Schedule P – Analysis of Losses and Loss Expenses. The prior examination recommended that the company complete Schedule P in accordance with the NAIC Annual Statement Instructions – Property and Casualty. The current examination found that the company correctly excluded all balances related to its excess insurance contracts from Schedule P.

However, the current examination encountered difficulties in reconciling paid losses and loss adjusting expenses between different schedules. Schedule P, Analysis of Losses and Loss Expenses and Loss Reserves and the Underwriting and Investment Exhibits, should be reconciled on a regular basis in order to verify that the paid losses and loss adjusting expenses as reported in the Underwriting and Investment Exhibits are equal to the change in cumulative paid and incurred losses and LAE reported in Schedule P, Part 1 Summary. CVMIC was not able to reduce the reconciling items to zero in the years included in this current exam. The reconciling differences were not material for the purpose of this examination; however, the company should continue working on eliminating all discrepancies in its reporting. It is recommended that the company continue its efforts to complete Schedule P – Analysis of Losses and Loss Expense, in accordance with the NAIC Annual Statement Instructions – Property and Casualty.

Reinsurance Intermediary

CVMIC utilizes a reinsurance intermediary-broker for the purchase of reinsurance. According to s. Ins 47.03, Wis. Adm. Code, a written authorization specifying the responsibility of each party must be made by the company to its reinsurance intermediary-broker. While there is a contract between CVMIC and the broker, this contract did not contain all of the required provisions included in s. Ins 47.03, Wis. Adm. Code. Deficiencies in the contract include: no indication of intermediary responsibility to remit all funds due to the insurer within 30 days, no indication of intermediary responsibility to hold all funds in a fiduciary capacity, and no indication of compliance with s. Ins. 47.04, Wis. Adm. Code, to complete record keeping for 10 years after the expiration of each contract. It is recommended that the company utilize a reinsurance intermediary agreement containing all of the required contract provisions in accordance with s. Ins. 47.03, Wis. Adm. Code.

Report on Executive Compensation

Section 611.63 (4), Wis. Stat., requires the amount of all direct and indirect remuneration for services paid or accrued each year to be included in the annual report made to the commissioner. During the review of the Report of Executive Compensation, it was found that both health and life insurance premiums paid by the company on behalf of its employees were not included in the Report of Executive Compensation. It is recommended that the company report all executive compensation, including direct and indirect compensation paid or accrued during the year, on the annual Executive Compensation Report filed with OCI in accordance with s. 611.63 (4), Wis. Stat.

VIII. CONCLUSION

CVMIC writes municipal liability insurance, including general liability, public officials' liability, law enforcement liability, workers' compensation, commercial auto liability, and auto physical damage coverage to member municipalities in the state of Wisconsin. Extensive risk management services are an integral part of the company's operating philosophy. CVMIC trains member communities for loss control, safety, and risk management.

CVMIC was organized in 1987 by 20 communities to provide liability insurance for municipal operations. Currently, there are 48 member communities. The company is managed by a 7-member board of directors. There currently are no committees of the board of directors. The CVMIC board of directors has, however, appointed presidential committees. Presidential committees are formed to address items referred from the board and make recommendations back to the board. Presidential committees serve strictly in an advisory role. The board has final authority and must take an affirmative vote to act on any recommendation from a presidential committee.

The examination made no balance sheet or surplus adjustments or reclassifications. The company complied with two and partially complied with one of the three prior examination recommendations. The current examination resulted in three recommendations.

IX. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 24 - Annual Statement Schedule P Reporting—It is recommended that the company continue its efforts to complete Schedule P – Analysis of Losses and Loss Expense in accordance with the NAIC Annual Statement Instructions – Property and Casualty.
2. Page 25 - Reinsurance Intermediary—It is recommended that the company utilize a reinsurance intermediary agreement containing all of the required contract provisions in accordance with s. Ins. 47.03, Wis. Adm. Code.
3. Page 25 - Executive Compensation—It is recommended that the company report all executive compensation, including direct and indirect compensation paid or accrued during the year, on the annual Executive Compensation Report filed with OCI in accordance with s. 611.63 (4), Wis. Stat.

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
Diana Havitz	Insurance Financial Examiner
Ana Careaga	ACL Specialist
Jerry DeArmond	Reserve Specialist

Respectfully submitted,

John Coyle
Examiner-in-Charge