

Report of the Examination of
Community Insurance Corporation
Brookfield, Wisconsin
As of December 31, 2018

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State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

Tony Evers, Governor
Mark V. Afable, Commissioner

Wisconsin.gov

March 23, 2020

125 South Webster Street • P.O. Box 7873
Madison, Wisconsin 53707-7873
Phone: (608) 266-3585 • Fax: (608) 266-9935
ociinformation@wisconsin.gov
oci.wi.gov

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:

COMMUNITY INSURANCE CORPORATION
Brookfield, Wisconsin

and this report is respectfully submitted.

I. INTRODUCTION

The previous examination of Community Insurance Corporation (CIC or the company) was conducted in 2014 and 2015 as of December 31, 2013. The current examination covered the intervening period ending December 31, 2018, and included a review of such 2019 and 2020 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 the 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 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 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

The company was incorporated on April 24, 2002, under ch. 611, Wis. Stat., as a stock property and casualty insurance company licensed in Wisconsin. The sole shareholder of the company is Wisconsin County Mutual Insurance Corporation (WCMIC). The company was formed to provide liability and workers' compensation coverage to municipalities and school districts. The initial capitalization of CIC consisted of \$2,000,000 in common capital stock and \$1,000,000 in gross paid-in and contributed surplus. Since the initial capitalization, WCMIC has been paid in and contributed to surplus an additional \$11,000,000.

On November 26, 2003, the commissioner granted CIC the authority to also offer fire, inland marine, and other property insurance pursuant to a change in the authority allowed its parent company, WCMIC, under s. 611.11 (4) (b), Wis. Stat. On September 1, 2012, the company began writing property insurance policies again after ceasing property writing in 2009. The company is licensed only in Wisconsin.

In Wisconsin, municipalities and school districts have limited exposure to large general liability and automobile liability claims due to "tort caps" of \$50,000 on general liability and \$250,000 on automobile liability pursuant to ss. 893.80 (3) and 345.05 (3), Wis. Stat. There is no "tort cap" for certain liability actions, such as civil rights actions based on federal law.

During 2018, the company provided municipalities and school districts with the following coverages:

- Liability insurance coverage with policy limits of up to \$10,000,000 per loss occurrence. These coverages are written above deductibles, which ranged from \$0 to \$250,000 per municipality or school district on a prefunded or standard deductible basis.
- Workers' compensation coverage with policy limits of the employer's liability reaching \$1,000,000 per accident for bodily injury by accident and \$1,000,000 per policy limit and per each employee for bodily injury by disease. The workers' compensation portion of coverage is as prescribed by Wisconsin law. During 2013, the company re-entered the market writing first dollar workers' compensation business after exiting the market in 2008.
- Auto physical damage coverage, as a property coverage component. Coverage is provided on an actual cash value basis and is written above deductibles ranging from \$500 to \$10,000. This coverage is mostly related to collision and comprehensive insurance on school buses.

CIC also offers retroactive coverages to its policyholders. The retroactive coverages include errors and omissions for both municipalities and school districts. The coverage is also extended for some municipalities to provide employee benefit coverage. As of the date of this examination, all school districts have such retroactive coverage and 39 of CIC's insured municipalities have such coverage. Some policies issued by CIC indicated the retroactive coverage extends as far back as 1987. The retroactive coverage is made available to policyholders who had coverage on a "claims made" basis from previous insurance carriers rather than on an occurrence basis. The retroactive coverage is to cover claims that are first reported during the effective period of the CIC policy even though the occurrence date was prior to CIC offering the coverage. The retroactive coverage includes coverage for employment discrimination, sexual harassment, and individual education plans required for special education students.

CIC offers policyholders the opportunity to establish a prefunded deductible escrow account for paying the deductible portion of their losses. The gross premiums are calculated using the insured's ratable operating expenses (ROE) or other exposure basis multiplied by the base rate and experience/exposure credit. A factor is then applied to the gross premium, based upon the deductible option selected, to determine the deductible credit. The gross premium is then reduced by the deductible credit to determine the actual premium charged. The insured's deductible deposit earns interest at a rate that matches the average interest rate earned by the company on its investments. During the policy year, the company monitors and pays claims on behalf of its insureds. At the end of the third quarter, the self-insured portion of claims paid and the percentage of outstanding reserves are compared with the deposit and the balance is settled.

Effective January 1, 2012, WCMIC entered into a loss portfolio and 100% quota share reinsurance agreement with CIC. Pursuant to the loss portfolio, CIC transferred approximately \$10.6 million in assets to WCMIC for loss, loss adjusting expense, and unearned premium reserves on policies issued prior to January 1, 2012. CIC has ceded to WCMIC 100% of CIC's losses, liabilities, and obligations arising under or relating to insurance policies issued by

CIC prior to January 1, 2012, and cedes all risk on policies issued or renewed on or after January 1, 2012.

CIC policies are marketed using an agency affiliated with Aegis Corporation (Aegis), its managing general agent (MGA), and independent agencies. The MGA is responsible for market conduct, agency appointments, and the field direction of the agency force. The company offers a one-year policy term. The major products marketed by the company include the following:

Liability coverage

Automobile liability

- Bodily injury and property damage
- Hired and non-owned
- Uninsured motorists
- Underinsured motorist

General liability

- Bodily injury and property damage products/completed operations
- Contractual liability
- Cyber liability coverage enhancement endorsement

Personal injury liability

- A broad definition of and coverage for discrimination
- Civil rights violations; and employment-related acts
- Libel, slander or defamation of character

Law enforcement liability

- Jail operations
- Assault and battery and intentional acts

Public officials' errors and omissions including director and officer liability

- Health care institutions
- Municipal-owned airports
- Municipality or school district officials appointed to serve on other boards and commissions on behalf of the insured

Nursing home liability

Workers' compensation coverage

- First dollar workers' compensation
- Excess workers' compensation, for self-insured clients

Property coverage

- Standard property insurance
- Auto physical damage coverage
- Comprehensive and collision

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
Commercial multiple peril	\$ 328,500	\$0	\$ 328,500	\$0
Workers' compensation	2,950,426	0	2,950,426	0
Other liability – occurrence	3,101,699	0	3,101,699	0
Commercial auto liability	1,194,816	0	1,194,816	0
Auto physical damage	<u>763,216</u>	<u>0</u>	<u>763,216</u>	<u>0</u>
Total All Lines	<u>\$8,338,657</u>	<u>\$0</u>	<u>\$8,338,657</u>	<u>\$0</u>

III. MANAGEMENT AND CONTROL

Board of Directors

The board of directors consists of seven members, five representing counties and two representing municipalities other than counties. Directors are elected by the sole shareholder at the annual shareholder's meeting to serve for a period of two years. The terms of the directors are staggered by their division into two classes.

The board members currently receive \$100 per diem plus allowed expenses for travel. Members of the Operations Oversight Committee receive a per diem of \$250 plus allowed expenses for travel.

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

Name and Residence	Principal Occupation	Term Expires
Thomas Wegner* Plymouth, Wisconsin Sheboygan County	Retired	2020
Ted Cushing Hazelhurst, Wisconsin Oneida County	Retired	2020
Willie Johnson, Jr.* Milwaukee, Wisconsin Milwaukee County	Retired	2021
Jess Miller Rice Lake, Wisconsin Barron County	Retired	2021
Edmund Wafle Mauston, Wisconsin Juneau County	Retired	2020
Gerald Derr* Columbus, Wisconsin Town of Bristol	Retired	2020
Larry Oehmichen Colby, Wisconsin Town of Colby	Farming	2021

* Mr. Derr is a member of the board of directors of Wisconsin Counties Association Services, Inc. (WCASI), and Messrs. Wegner and Johnson are on the board of Wisconsin Counties Association (WCA). All of these members properly abstained from voting on matters regarding WCASI and/or WCA.

Officers of the Company

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

Name	Office	2018 Compensation
Gerald Derr	Chairman	\$1,800
Willie Johnson, Jr.	Vice Chairman	800
Thomas Wegner	Secretary/Treasurer	1,800
Michael Lamont	Assistant Secretary - Permanent	0

Compensation for the officers above is comprised solely of per diems for attending board and committee meetings as well as reimbursements for mileage and meals. The assistant secretary does not receive compensation for his/her advisory role in the company's operations

Committees of the Board

The company's bylaws allow for the formation of certain committees by the board of directors. The Operations Oversight Committee consists of five members, three directors of the company and two external members. The committee members at the time of the examination are listed below.

Operations Oversight Committee

Gerald Derr
Patrick Brennand (external member)
Edmund Wafle
Thomas Wegner
Brian Adesso (external member)

Executive Committee

Gerald Derr
Willie Johnson, Jr.
Thomas Wegner

Management

CIC has no employees. The company contracts with outside vendors to provide agreed-upon services. The services include corporate management, general administration, claims administration, auditing, actuarial, and investment.

Since the company's inception, WCA Services, Inc. (WCASI) has been contracted to provide general corporate management services. The services to be provided under the agreement are summarized as follows:

- A. Manage and oversee all CIC's service contracts including, but not limited to, contracts for claims administration, general administration, risk management services and training, public relations, investment, and reinsurance brokerage. WCASI shall review and approve the expenditure of funds associated with any service contract approved by the corporation's board prior to the disbursement of such funds.
- B. Oversee investment of CIC's assets.

- C. Provide customer services on behalf of CIC to school districts and municipalities.
- D. Coordinate board meetings.
- E. Arrange for legal services for the board.
- F. Arrange for insurance consultant services.
- G. Provide for and oversee marketing of CIC.
- H. Communicate with rating agencies.
- I. Recommend and draft board policies to ensure compliance with state and federal laws and regulations.
- J. Reimburse directors for personal travel expenses, subject to CIC reimbursement to WCASI.
- K. Pay expenses for CIC subject to reimbursement.
- L. Issue communication to policyholders.
- M. Prepare periodic financial reports on corporate management services.
- N. Receive and deposit all premiums for the corporation.
- O. Monitor unclaimed property and submit annual filing to State Treasurer.
- P. Serve as staff for the board.
- Q. Maintain an office as the corporate office.
- R. Provide legislative services at both the state and federal level.
- S. Provide services to the Owner-Direct Insurance Program (ODIP) program, including:
 - Develop a s. 66.30, Wis. Stat. (replaced by s. 66.0301, Wis. Stat.), organization to act as the “financially responsible party”
 - Manage the s. 66.30, Wis. Stat., organization
 - Promote services to school districts and municipalities
 - Provide legislative support
 - Manage the services
- T. Arrange for training programs for the board of directors.

The current contract with WCA Services, Inc. is dated January 1, 2018, and expires December 31, 2022, and includes the following schedule regarding compensation from CIC:

Coverage	Compensation
Municipal liability	\$0.50 per \$1,000 of ratable operating expenses
Municipal liability and property	\$0.625 per \$1,000 of ratable operating expenses plus \$0.005 per \$100 of insured property values
School liability	\$0.50 per pupil

School liability and property and/or auto physical damage	\$0.625 per pupil plus \$0.005 per \$100 of insured property values
Fully insured workers' compensation	Flat fee per insured of \$800 for each municipality other than a town or school district, \$175 for each town, and \$750 for each school district, plus an annual fee, based on the last audited payroll of the insured, which is 0.30% of the payroll for each municipality other than a town or school district and 0.02% for each school district
Excess workers' compensation	2% of the standard workers' compensation rate
Owner-direct insurance program	3.75% of the ODIP premium (net of return premium).

Administration

Since 1992, significant administration services for the group have been provided by Aegis, which is also the group's managing general agent. A review of the agreement showed the contract included provisions required under s. Ins 42.03, Wis. Adm. Code, and that the company was performing all required duties (e.g., performance of on-site claim audits at least semiannually) as required under s. Ins 42.05, Wis. Adm. Code. The administrative services to be provided per the agreement are summarized as follows:

- A. Maintain the appropriate records and procedures to comply with the Office of the Commissioner of Insurance regulations.
- B. Coordinate with other service producers and administer a loss prevention program.
- C. Provide services to the ODIP program, including:
 - Develop any required forms and filing special forms
 - Develop rates
 - Provide administration services
 - Provide safety services
 - Promote the program
- D. Manage and provide claims adjustment and reports for the company's liability, workers' compensation, and property programs.
- E. Pay expenses as allowed or directed by CIC and provide a monthly accounting of all monies so expended.
- F. Issue insurance policies and/or certificates and issue all invoices; collect amounts due, and/or return amounts payable.
- G. Assisting in procuring on the behalf of CIC and at CIC's expense, insurance and reinsurance coverages for protection of CIC's coverage, limits, and financial well-being, provided that such procurement will be at the direction and approval of CIC.
- H. Provide monthly accounting for all income and expenses of CIC.

- I. Maintain books and records in a manner consistent with the Statements of Statutory Accounting Principles.
- J. Compute the annual premiums established by CIC.
- K. Procure actuarial support services in determining premiums necessary on a continuing basis.
- L. Report monthly on the actual income and expenses compared to the budget.
- M. Prepare all reports required to be filed with the Office of the Commissioner of Insurance.
- N. Subject to board approval, do and perform such other, further, and additional acts and duties as are generally done and performed.

Aegis has a similar administration agreement with CIC's parent company, WCMIC.

The current agreement with Aegis took effect on January 1, 2017, and expires

December 31, 2021. The agreement also includes a schedule regarding the compensation to be paid to Aegis by CIC:

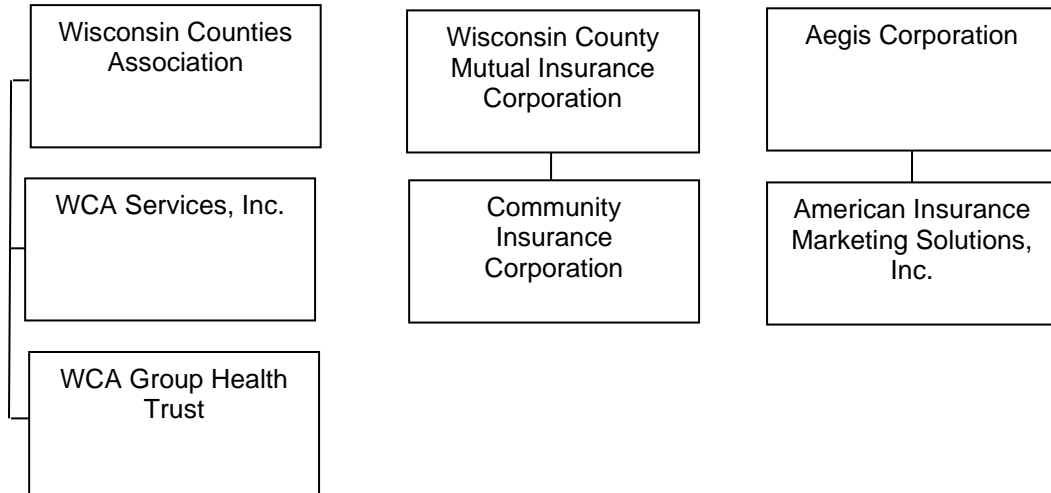
Coverage	Compensation
Municipal liability	\$0.85 per \$1,000 of ratable operating expenses
School liability	\$1.55 per pupil
Property insurance coverage including auto physical damage	\$125 annual flat fee per policy plus \$0.005 per \$100 of total insured values
Auto physical damage insurance only	\$75 annual flat fee per policy plus \$0.05 per \$100 of total insured values
Liability claim services	\$565 for all liability claims (including suffixes to 10) and \$30 for files designated "Incident Only." For claims with more than 10 suffixes, fee is \$5,650 plus an additional board approved T&E fee.
Fully insured workers' compensation school districts	An annual flat fee of \$1,500 per each policy issued plus \$0.06 per \$100 payroll remuneration (payroll will be determined off of the "audited" payroll used to determine the most current "final audit" available, or if not available the estimated payroll used to process the policy)
Fully insured workers' compensation municipalities (other than towns)	An annual flat fee of \$150 per each policy issued plus \$0.20 per \$100 payroll/remuneration
Fully insured workers' compensation municipalities (towns)	An annual flat fee of \$150 per each policy issued plus \$0.20 per \$100 payroll/remuneration
Excess workers' compensation with or without services	Up to 2% of the standard workers' compensation rate based upon the premium and self-insured retention

Coverage	Compensation
Workers' compensation claim services	\$625 for lost-time claims (including suffixes), \$255 for medical-only claims paid less than \$5,000 (including suffixes) and \$625 for medical-only claims paid greater than \$5,000, and \$30 for incidental claims
Medicare secondary mandatory reporting claims services	\$32.50 per claim file
Liability claim services	\$565 for all liability claims (including suffixes up to 10) and \$30 for files designated "Incident Only." For claims with more than 10 suffixes, fee is \$5,650 plus an additional board approved T&E fee.
Property claim services including auto physical damage	\$565 for all property claims (including suffixes) or 4.7% of actual loss, whichever is greater. If a percentage of actual loss is used, it will be capped at a maximum of \$5,650 per claim.

IV. AFFILIATED COMPANIES AND KEY SERVICE PROVIDERS

Community Insurance Corporation is a member of a holding company system with its parent company, Wisconsin County Mutual Insurance Corporation. WCA and its subsidiaries and Aegis are key service providers. A brief description of CIC, as well as WCMIC's key service providers and their affiliates, follows the organizational chart.

**Organizational Chart
As of December 31, 2018**



Wisconsin County Mutual Insurance Corporation

Wisconsin County Mutual Insurance Corporation was organized by member counties and WCA in 1987 under ch. 611, Wis. Stat., as an assessable municipal mutual. WCMIC is only licensed in Wisconsin. On March 22, 1996, the commissioner approved WCMIC's conversion to nonassessable status. On November 26, 2003, the commissioner granted WCMIC and CIC the authority to also offer fire, inland marine, and other property insurance. On September 1, 2015, WCMIC began writing property insurance policies again after ceasing writing property in 2009.

As of December 31, 2018, WCMIC's statutory basis audited financial statement reported assets of \$84,691,285, liabilities of \$58,304,811, and a policyholders' surplus of \$26,386,474. Operations for 2018 produced a net income of \$1,361,093.

Key Service Providers and its Affiliates

Wisconsin Counties Association

Wisconsin Counties Association was created in 1935 by an act of the Wisconsin Legislature as a nonprofit association organized to protect and further the interests and concerns of county governments. WCA is a quasi-government entity created under s. 59.52 (22), Wis. Stat., and is tax exempt on both the federal and state level. All 72 Wisconsin counties are WCA members. WCA lobbies the legislature on matters of interest to Wisconsin counties. In recent years, WCA expanded its operations by providing services to its members such as educational programs, employee benefits, and liability insurance. WCA charges additional fees to counties that participate in service programs.

WCA Services, Inc.

In order to provide additional services to counties, the WCA board of directors created WCA Services, Inc., a wholly owned subsidiary of WCA. The service corporation is involved in projects that benefit counties and offer potential cost savings, such as a county purchasing directory, discounted office supplies, a grant locator, and on-line auction services. WCASI has no employees. Services offered are performed by employees of WCA.

WCASI provides management services to CIC which are similar to the services WCA provides to WCMIC. As of December 31, 2018, the financial statements of WCASI were independently reviewed by a certified public accountant. In 2019, CIC paid WCA Services \$367,456 in management fees.

WCA Group Health Trust

The WCA Group Health Trust was established in 1991 by county officials to create an employee benefit program that would meet the needs of local governments. The WCA Group Health Trust serves Wisconsin county and municipal units of government. WCA provides the corporate management support services for the WCA Group Health Trust. Marketing and consulting functions are provided by Aegis. WCA Group Health Trust is governed by a 12-member board of directors, each serving three-year staggered terms. Members of the board are appointed by the president of WCA. Three members of the WCA Group Health Trust board of

directors also sit on the WCMIC board of directors and one on the CIC board of directors.

Additionally, Michael Lamont, who serves as the assistant secretary on the CIC's board of directors, is an officer of WCA Group Health Trust.

Aegis Corporation

Aegis Corporation was formed in 1992 to provide insurance brokerage, risk management, administration, and educational services to municipalities and other businesses. Robert Wurtz and John Dirkse each own 50% of Aegis. WCMIC selected Aegis as its administrator on December 1, 1992. Prior to Aegis' creation, the company contracted with Frank B. Hall of Wisconsin, Inc. (Hall) as the administrator. Mr. Wurtz and Mr. Dirkse were employees of Hall and acquired the rights from Hall to service WCMIC and other municipal clients. Conditions of the release from the agreement called for payments from Aegis to Hall totaling \$142,300 in 1993 and \$42,500 in 1994. The formation of Aegis was facilitated by WCMIC paying fees totaling \$185,000, which fee structure was approved in advance by the board. In 2019, CIC paid Aegis \$1,578,428 in management fees.

American Insurance Marketing Solutions, Inc.

American Insurance Marketing Solutions, Inc. (AIMS, Inc.) is owned 20.48% by Aegis, 21.69% by Mr. John Dirkse, 21.69% by Mr. Robert Wurtz, and the balance by other employees or former employees. AIMS, Inc., is an insurance agency created to represent the risk management and alternative risk financing needs of public entities, including Wisconsin schools. AIMS, Inc., acts as an agent for CIC.

V. REINSURANCE

The company has only one treaty, an affiliated ceded reinsurance contract described below. The contract contained proper insolvency provisions.

Affiliated Ceding Contracts

1. Type: Quota Share
Reinsurer: Wisconsin County Mutual Insurance Corporation
Scope: 100% quota share, all business
Retention: \$0
Coverage: 100%
Premium: All gross premiums written
Commissions: All unallocated claim expenses, underwriting expenses, management and administration fees, and other acquisition costs related to the premiums, but only to the extent not paid or otherwise directly settled by the reinsurer
Effective date: January 1, 2012
Termination: Perpetual; 12 months' prior notice of termination

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.

Community Insurance Corporation
Assets
As of December 31, 2018

	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	\$5,462,969	\$	\$5,462,969
Cash, cash equivalents, and short-term investments	152,642		152,642
Investment income due and accrued	34,984		34,984
Premiums and considerations:			
Uncollected premiums and agents' balances in course of collection	154,473		154,473
Deferred premiums, agents' balances, and installments booked but deferred and not yet due	201,082		201,082
Reinsurance:			
Amounts recoverable from reinsurers	202,273		202,273
Funds held by or deposited with reinsured companies			
Other amounts receivable under reinsurance contracts	247,541		247,541
Write-ins for other than invested assets:			
Prepaid Expenses	29,807	29,807	
Other Receivables	5,032		5,032
Audits Receivable	<u>11,763</u>	<u> </u>	<u>11,763</u>
Total Assets	<u>\$6,502,565</u>	<u>\$29,807</u>	<u>\$6,472,758</u>

Community Insurance Corporation
Liabilities, Surplus, and Other Funds
As of December 31, 2018

Advance premium		\$ 11,975
Funds held by company under reinsurance treaties		114,549
Amounts withheld or retained by company for account of others		135,451
Write-ins for liabilities:		
Return Premium Payable - Audits		3,521
 Total Liabilities		 265,496
 Common capital stock	 \$ 2,000,000	
Gross paid in and contributed surplus	12,000,000	
Unassigned funds (surplus)	(7,792,738)	
 Surplus as Regards Policyholders		 6,207,262
 Total Liabilities and Surplus		 \$6,472,758

**Community Insurance Corporation
Summary of Operations
For the Year 2018**

Other underwriting expenses incurred	\$(345,323)	
Total underwriting deductions		<u>(345,323)</u>
Net underwriting gain (loss)		345,323
Investment Income		
Net investment income earned	50,579	
Net realized capital gains (losses)	<u>(2,458)</u>	
Net investment gain (loss)		<u>48,121</u>
Other Income		
Net income (loss) before dividends to policyholders and before federal and foreign income taxes		393,445
Dividends to policyholders		<u>271,395</u>
Net income (loss) after dividends to policyholders but before federal and foreign income taxes		<u>122,050</u>
Net Income		<u>\$122,050</u>

Community Insurance Corporation
Cash Flow
For the Year 2018

Premiums collected net of reinsurance		\$ (655,241)
Net investment income		<u>53,934</u>
Total		(601,308)
Benefit- and loss-related payments	\$ (602,112)	
Commissions, expenses paid, and aggregate write-ins for deductions	(97,782)	
Dividends paid to policyholders	<u>271,395</u>	
Total deductions		<u>(428,500)</u>
Net cash from operations		(172,808)
Proceeds from investments sold, matured, or repaid:		
Bonds	\$1,156,333	
Cost of investments acquired (long-term only):		
Bonds	<u>1,276,522</u>	
Net cash from investments		(120,189)
Cash from financing and miscellaneous sources:		
Other cash provided (applied)		<u>(816,545)</u>
Reconciliation:		
Net Change in Cash, Cash Equivalents, and Short-Term Investments		(1,109,542)
Cash, cash equivalents, and short-term investments:		
Beginning of year		<u>1,262,184</u>
End of Year		<u>\$ 152,641</u>

**Community Insurance Corporation
Compulsory and Security Surplus Calculation
December 31, 2018**

Assets		\$6,472,758
Less liabilities		<u>265,496</u>
Adjusted surplus		6,207,262
Annual premium:		
Lines other than accident and health	\$(271,395)	
Factor	<u>20%</u>	
Compulsory surplus (subject to a minimum of \$2 million)		<u>2,000,000</u>
Compulsory Surplus Excess (Deficit)		<u>\$4,207,262</u>
Adjusted surplus (from above)		\$6,207,262
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>2,800,000</u>
Security Surplus Excess (Deficit)		<u>\$3,407,262</u>

**Community Insurance Corporation
Analysis of Surplus
For the Five-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	2014
Surplus, beginning of year	\$6,090,049	\$6,004,630	\$5,907,210	\$5,811,266	\$5,733,010
Net income	122,050	110,390	97,420	95,944	78,256
Change in nonadmitted assets	<u>(4,837)</u>	<u>(24,970)</u>			
Surplus, End of Year	<u>\$6,207,262</u>	<u>\$6,090,049</u>	<u>\$6,004,630</u>	<u>\$5,907,210</u>	<u>\$5,811,266</u>

**Community Insurance Corporation
Insurance Regulatory Information System
For the Five-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	2014
#1 Gross Premium to Surplus	134%	140%	138%	161%	145%
#2 Net Premium to Surplus	0	0	0	0	0
#3 Change in Net Premiums Written	0	0	0	0	0
#4 Surplus Aid to Surplus	0	0	0	0	0
#5 Two-Year Overall Operating Ratio	0	0	0	0	0
#6 Investment Yield	0.8*	0.8*	0.7*	0.7*	0.5*
#7 Gross Change in Surplus	2	1	2	2	1
#8 Change in Adjusted Surplus	2	1	2	2	1
#9 Liabilities to Liquid Assets	1	21	12	86	24
#10 Agents' Balances to Surplus	2	0	0	17	2
#11 One-Year Reserve Development to Surplus	0	0	0	0	0
#12 Two-Year Reserve Development to Surplus	0	0	0	0	0
#13 Estimated Current Reserve Deficiency to Surplus	0	0	0	0	0

Ratio No. 6 measures the amount of the company's net investment income as a percentage of the average amount of cash and invested assets and was considered exceptional in each of the years under examination. This is mainly due to the company's bond portfolio being significantly comprised of government securities, together with the prolonged low interest rate environment in the United States during the period under examination.

Growth of Community Insurance Corporation

Year	Admitted Assets	Liabilities	Surplus as Regards Policyholders	Net Income
2018	\$6,472,758	\$265,496	\$6,207,262	\$122,050
2017	7,565,120	1,475,070	6,090,049	110,390
2016	6,680,076	675,447	6,004,630	97,420
2015	10,431,025	4,523,815	5,907,210	95,944
2014	7,438,185	1,626,919	5,811,266	78,256
2013	6,519,791	786,782	5,733,010	83,048

Year	Gross Premium Written	Net Premium Written	Premium Earned	Loss and LAE Ratio	Expense Ratio	Combined Ratio
2018	\$8,338,657	\$0	\$0	0.0%	0.0%	0.0%
2017	8,545,865	0	0	0.0	0.0	0.0
2016	8,276,468	0	0	0.0	0.0	0.0
2015	9,513,028	0	0	0.0	0.0	0.0
2014	8,454,050	0	0	0.0	0.0	0.0
2013	5,684,107	0	0	0.0	0.0	0.0

Pursuant to the company's quota share agreement with its parent company, WCMIC, that became effective January 1, 2012, CIC does not report any underwriting results. Its net income and surplus have increased steadily in the last five years exclusively due to investment results. Gross premium increased 49% between 2013 and 2014. CIC resumed writing first dollar workers' compensation coverage in 2013, and the increase in premium was primarily attributed to an increase in this coverage. Direct premiums spiked in 2015 but came down and have stabilized in the following years.

The prior examination report included a comment regarding the lack of profitability CIC had experienced since its inception in 2002 and the negative financial impact the lack of profitability had had on WCMIC. As the condition for approval of the quota share intercompany reinsurance agreement, the Office of the Commissioner of Insurance (OCI) requested that CIC submit pro-forma financial statements that show CIC's financial results without the effect of the intercompany reinsurance agreement. (Note: The pro-forma results do take into effect the reinsurance program that the company would have in place if it had not entered into the intercompany reinsurance agreement with WCMIC. This reinsurance program is the same

program that is outlined in the WCMIC examination report.) Further, the prior examination recommended that the company prepare, on at least an annual basis, a pro-forma projection of its underwriting results and anticipated surplus and the effects on the financial results of its parent, for at least a subsequent three-year period. Since then, the pro-forma projections and the comparisons between actual and projected results have been prepared and presented to the board of directors on an annual basis. Selected financial information, both direct pro-forma results and financial projections made in 2015 are presented in the table below:

	2018	2017	2016	2015	2014
Net premium earned	\$7,686,020	\$7,484,992	\$7,916,866	\$8,101,466	\$6,146,005
Net losses incurred	3,435,904	4,795,242	6,158,978	4,756,806	3,711,344
Net LAE incurred	2,848,741	2,219,657	2,613,395	2,669,326	2,218,734
Losses/LAE incurred	6,284,645	7,014,899	8,772,373	7,426,132	5,930,078
Other U/W expenses	2,354,835	2,350,277	2,411,107	2,656,774	2,434,192
Net U/W gain (loss)	(953,460)	(1,880,184)	(3,266,614)	(1,981,440)	(2,218,265)
Net income (loss)	(641,410)	(1,589,794)	(2,989,194)	(1,715,496)	(1,997,809)
Net Loss/LAE ratio	81.8%	93.7%	110.8%	91.7%	96.5%
Projected Loss/LAE Ratio*	71.5%	74.3%	76.5%	86.6%	%*
Year-End Surplus	(7,617,582)	(6,674,970)	(4,669,768)	(1,418,054)	526,485

* Projected results that the company started estimating in 2015. The rest of the numbers represents the pro-forma net results (direct results adjusted for ceded reinsurance that the company would have had prior to entering into quota share agreement with WCMIC).

On the pro-forma basis, CIC reported underwriting and net losses in all five years under examination. Its actual results did not meet the projections, although the difference between them narrowed in 2018, and further, in 2019 when CIC reported a net underwriting gain. Subsequent to the period that is within the scope of this examination, the pro-forma results for 2019 were received by OCI. While 2019 is outside of the scope of this examination, it is worth noting that the company has implemented a number of strategic changes, including a reduction in loss adjustment expenses, changes in underwriting standards, and expansion of loss prevention services.

Reconciliation of Surplus per Examination

No adjustments were made to surplus as a result of the examination. For purposes of this examination report, 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 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. Audit Engagement—It is recommended that the company enter into an audit engagement with an independent certified public accountant without an indemnification clause under the requirements of s. Ins 50.08 (1) (am), Wis. Adm. Code.

Action—Compliance.

2. Administration Agreement—It is again recommended that the company take measures to ensure that the insurance policies secured by the general administrator contain the agreed upon 60-day cancellation notice.

Action—Compliance.

3. Business Plan—It is recommended that the company prepare, on at least an annual basis, a pro-forma projection of its underwriting results and anticipated surplus and the effects on the financial results of its parent, for at least a subsequent three-year period, to be shared with the board of directors for monitoring and comparison with actual results in order for the board to make an informed decision about the company's future business operations.

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.

Custodial Agreement

Custodial agreements of Wisconsin-domiciled companies must comply with guidelines contained in the NAIC's *Financial Condition Examiners' Handbook*. The review of the custodial agreement with U.S. Bank revealed that the agreement does not include all of the contractual provisions contained in the NAIC's *Financial Condition Examiners' Handbook* that are intended to ensure proper controls and safeguards. The following items were missing from the agreement:

1. Certifies securities of the insurance company shall be held separate from all other securities.
2. In the event the custodian gains entry in a clearing corporation through an agent, there should be a written agreement between the custodian and the agent that the agent shall be subjected to the same liability of loss to the securities as the custodian. If the agent is governed by laws that differ from the regulation of the custodian, the commissioner of insurance of the state of domicile may accept a liability applicable to the agent that is different from standard liability.
3. If the custodian agreement has been terminated or if 100% of the account assets in any one custody account have been withdrawn, the custodian shall provide written notification, within three business days of termination or withdrawal, to the insurer's domiciliary commissioner.
4. During regular business hours, and upon reasonable notice, an officer or employee of the insurance company, an independent accountant selected by the insurance company and a representative of an appropriate regulatory body shall be entitled to examine, on the premises of the custodian, its records relating to securities if the custodian is given written instructions to that effect from an authorized officer of the insurance company.
5. The custodian and its agents, upon reasonable request, shall be required to send all reports which they receive from a clearing corporation, which the clearing corporation permits to be redistributed including reports prepared by the custodian's outside auditors, to the insurance company on their respective systems of internal control.
6. To the extent that certain information maintained by the custodian is relied upon by the insurance company in preparation of its annual statement and supporting schedules, the custodian agrees to maintain records sufficient to determine and verify such information.

7. The custodian shall provide upon written request from a regulator or an authorized officer of the insurance company, the appropriate affidavits, with respect to the insurance company's securities held by the custodian.

It is recommended that the company have the custodian revise the custodial agreement to include the guideline provisions contained in the NAIC's *Financial Condition Examiners' Handbook*.

Reserve Adjustments

The examination team reviewed compliance with the claim handling policy established by the company's managing general agent. According to the policy, all reserve changes of \$100,000 or more made by adjustors on one claim must be accompanied by written communication to management as to why the reserves changed. During a review of a sample of claims, the examiner noted that in one instance a claim reserve was increased by approximately \$101,000 when a new subclaim was added, but no communication was sent to management. It was further learned that any claim resulting from one loss occurrence can be divided into multiple subclaims if there are multiple claimants or different types of losses. Each subclaim was not subject to the \$100,000 change in reserves reporting threshold. Thus, reserve changes on multiple subclaims can greatly exceed the \$100,000 reserve change threshold per each claim and not be subject to reporting. Paid losses on each claim are tracked and reported as a cumulative amount and are presented to the Claims Committee of the board of directors. Changes in reserves, however, are tracked and reported per each subclaim, with no reserves cumulative total tracked. It is recommended that the claim handling policy include a threshold standard for reporting cumulative changes for all reserves applicable to any one claim.

Succession Plan

The company does not have any employees and relies on its managing general agent and corporate manager for all day-to-day operations including corporate management, general administration, and claims administration. However, there is no succession plan in place in the event one or more of its critical service providers becomes unable or unwilling to perform its services. Many factors outside of the company's control could significantly disrupt operations in the event a service provider ceased to provide service for any reason. It is recommended that

the company's board of directors establish and approve a written, detailed succession plan, including how the company would continue normal business activities in the event any of its critical third-party service providers discontinue their services to the company and provide a copy of this succession plan to OCI within six months following the adoption of this examination report.

VIII. CONCLUSION

Pursuant to the company's quota share agreement with its parent company that became effective January 1, 2012, WCMIC, CIC does not report any underwriting results. Its net income and surplus have increased steadily in the last five years exclusively due to investment results. Gross premium increased 49% between 2013 and 2014. CIC resumed writing first dollar workers' compensation coverage in 2013, and the increase in premium was primarily attributed to an increase in this coverage.

The company complied with all of the prior examination's recommendations. The current examination of Community Insurance Company resulted in three recommendations. No adjustments to surplus or reclassifications were made as a result of the examination.

IX. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 29 Custodial Agreement—It is recommended that the company have the custodian revise the custodial agreement to include the guideline provisions contained in the NAIC's *Financial Condition Examiners' Handbook*
2. Page 29 Reserve Adjustments—It is recommended that the claim handling policy include a threshold standard for reporting cumulative changes for all reserves applicable to any one claim.
3. Page 29 Succession Plan—It is recommended that the company's board of directors establish and approve a written, detailed succession plan, including how the company would continue normal business activities in the event any of its critical third-party service providers discontinue their services to the company and provide a copy of this succession plan to OCI within six months following the adoption of this examination report.

X. ACKNOWLEDGMENT

The courtesy and cooperation extended during 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
Dana Tice	Insurance Financial Examiner
Judith Michael	Insurance Financial Examiner
Mike Miller	Insurance Financial Examiner
Terry Lorenz, CFE	Workpaper Specialist
Eleanor Lu, CISA	IT Specialist
Jerry DeArmond, CFE	Reserve Specialist

Respectfully submitted,



Nicholas Barsuli
Examiner-in-Charge

XI. SUBSEQUENT EVENTS

On March 11, 2020, the World Health Organization (WHO) declared the spreading coronavirus (COVID-19) outbreak a pandemic. On March 13, 2020, U.S. President Donald J. Trump declared the coronavirus pandemic a national emergency in the United States. The epidemiological threat posed by COVID-19 is having disruptive effects on the economy, including disruption of the global supply of goods, reduction in the demand for labor, and reduction in the demand for U.S. products and services, resulting in a sharp increase in unemployment. The economic disruptions caused by COVID-19 and the increased uncertainty about the magnitude of the economic slowdown has also caused extreme volatility in the financial markets.

The full effect of COVID-19 on the U.S. and global insurance and reinsurance industry is still unknown at the time of releasing this report. This office is expecting the COVID-19 outbreak to impact a wide range of insurance products, resulting in coverage disputes, reduced liquidity of insurers, and other areas of operations of insurers. OCI and all insurance regulators with the assistance of the National Association of Insurance Commissioners are monitoring the situation through a coordinated effort and will continue to assess the impacts of the pandemic on U.S. insurers. OCI has been in communication with Community Insurance Corporation regarding the impact of COVID-19 on business operations and the financial position of CIC and no immediate action was deemed necessary at that time of this report.