

Report of the Examination of
League of Wisconsin Municipalities Mutual Insurance
Madison, Wisconsin
As of December 31, 2021

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March 1, 2023

Honorable Nathan D. Houdek
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:

LEAGUE OF WISCONSIN MUNICIPALITIES MUTUAL INSURANCE
Madison, Wisconsin

and this report is respectfully submitted.

I. INTRODUCTION

The previous examination of League of Wisconsin Municipalities Mutual Insurance (the company or LWMMI) was conducted in 2018 as of December 31, 2016. The current examination covered the intervening period ending December 31, 2021, and included a review of such subsequent 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 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 concerning the alternative or additional examination steps performed during the examination.

II. HISTORY AND PLAN OF OPERATION

The company was organized in 2002 to provide worker’s compensation and liability coverages to Wisconsin municipalities. The League of Wisconsin Municipalities (the League), through the League of Wisconsin Municipalities Insurance Trust (the Insurance Trust), sponsored the formation of the company. The company was capitalized with \$5,000,000 and began operations October 1, 2002. The company is a municipal mutual under the ownership and ultimate control of its policyholders. The Insurance Trust has qualified claims on the company’s surplus and the League, from its sponsorship, has certain rights which are discussed further in the “Affiliated Companies” section of the examination report. The company’s only employees are its CEO and an assistant. Operations of the company are performed by a number of service providers.

The company is licensed and writes premiums exclusively in the State of Wisconsin. The main products marketed by the company include worker’s compensation, other liability – occurrence, auto physical damage, and commercial auto liability. The products are marketed through five independent agents.

The following table is a summary of the net insurance premiums written by the company in 2021. 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	\$14,178,533		\$ 849,087	\$13,329,446
Other liability – occurrence	9,301,639		1,287,395	8,014,244
Commercial auto liability	2,297,514		294,348	2,003,166
Auto physical damage	<u>3,021,427</u>		<u>269,425</u>	<u>2,752,002</u>
Total All Lines	<u>\$28,799,113</u>	<u>\$ 0</u>	<u>\$ 2,700,255</u>	<u>\$26,098,858</u>

III. MANAGEMENT AND CONTROL

Board of Directors

The board of directors consists of seven members. Two directors are elected annually to serve a three-year term. One director is permanent, representing the League. The board members currently do not receive compensation for serving on the board except for travel reimbursements. Officers are elected by the board of directors.

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

Name and Residence	Principal Occupation	Term Expires
David De Angelis Muskego, Wisconsin	Village Manager, Village of Elm Grove	2024
David Benforado Madison, Wisconsin	Village President, Village of Shorewood Hills	2023
Gerard Deschane Stoughton, Wisconsin	Executive Director, League of Wisconsin Municipalities	Permanent
Mark Rohloff Oshkosh, Wisconsin	City Manager, City of Oshkosh	2023
Rebecca Glewen Oshkosh, Wisconsin	Mayor, City of Beaver Dam	2024
Kathleen Morse Rice Lake, Wisconsin	Clerk/Treasurer, City of Rice Lake	2025
Zachary Vruwink Rhineland, Wisconsin	Administrator, City of Rhineland	2025

Officers of the Company

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

Name	Office
Matt Becker	Chief Executive Officer
David L. De Angelis	President
Kathleen Morse	Vice President

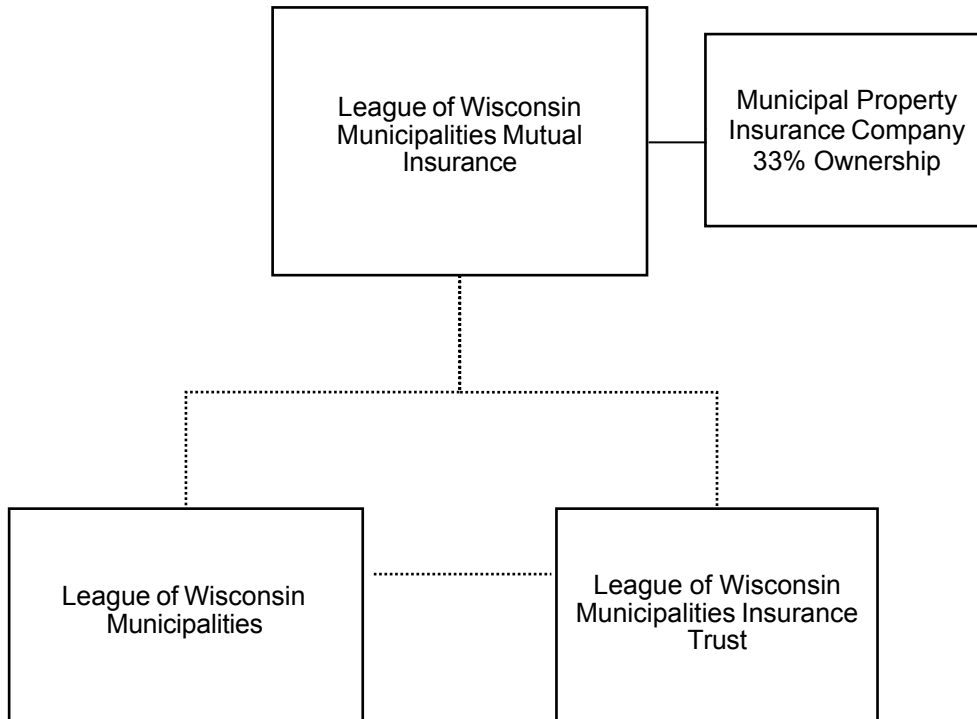
Committees of the Board

The company's bylaws allow for the formation of certain committees by the board of directors. There were no committees at the time of the examination.

IV. AFFILIATED COMPANIES

LWMMI is affiliated with three other entities. The organizational chart below depicts the relationships among the affiliates in the group. A brief description of the significant affiliates follows the organizational chart. Municipal Property Insurance Company (MPIC) is the only affiliated licensed insurer.

**Organizational Chart
As of December 31, 2021**



Municipal Property Insurance

On July 24, 2015, MPIC was capitalized by three separate municipal mutual insurance companies, including LWMMI, in equal amounts. The company is a 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 provides property insurance to Wisconsin municipalities. As of December 31, 2021, the audited financial statements of MPIC reported assets of \$24,441,880, liabilities of \$11,685,344, and policyholders' surplus of \$12,756,536. Operations for 2021 produced net income of \$1,738,772.

League of Wisconsin Municipalities

The League is a voluntary nonprofit and nonpartisan association of cities and villages that acts as an information clearinghouse, lobbying organization, and legal resource for Wisconsin municipalities. The League is comprised of 189 cities and 407 villages. The total number of cities and villages in Wisconsin is 190 and 415, respectively.

The League, by virtue of its sponsorship, has the following rights with regard to the governance of the company:

1. The executive director of the League is a permanent director for the company.
2. The following articles of incorporation or bylaws may not be amended without approval by a two-thirds vote of the League's board members:
 - a. Purpose of the company.
 - b. Payment of dividends.
 - c. Dissolution.
 - d. Amendments.
 - e. Executive director of the League as a permanent director for the company.

League of Wisconsin Municipalities Insurance Trust

The Insurance Trust was created in 1983 for the purpose of purchasing and making available various forms of insurance to the League's members and to provide cost savings for the members through the procurement of such insurance and the administration of such insurance programs. The

Insurance Trust shares office space and employees with the League. As of December 31, 2021, unaudited financial statements of the Insurance Trust reported no liabilities and assets of \$4,465,310.

The Insurance Trust provided start-up funding for the company and would receive a significant portion of the company's surplus should the company choose to dissolve. Upon dissolution of the company and after all obligations of the company are satisfied, the Insurance Trust would receive its aggregate contributions to the company plus interest at 5% per annum if it is then in existence. The Insurance Trust provided a \$5,000,000 contribution of surplus in 2002. In 2004, the Insurance Trust contributed an additional \$1,854,442 which consisted of \$1,495,709 in securities and the rights to an equity balance with NLC Mutual Insurance Company of \$358,733. NLC Mutual Insurance Company is a non-taxable, captive mutual insurance company whose members are risk-sharing pools set up by various state municipal leagues to provide insurance coverage for municipalities and certain other public entities. The Insurance Trust provided an additional \$300,000 contribution of surplus in 2010. The Insurance Trust also incurred certain start-up costs for the company of around \$176,000.

Agreements with Affiliates

The company originally entered into a license and service agreement with the League of Wisconsin Municipalities in 2014 with the agreement being amended in 2021. The amended agreement provides that the company pays the League an annual fee of 1% of direct premiums written (plus an additional 1% on new customer premiums) and reimbursement of costs incurred by the League on behalf of the company. Services provided under the agreement include marketing and administrative/consulting support such as making presentations, writing articles, promotion, etc., for benefit of the company and its insureds. The agreement automatically renews annually.

V. REINSURANCE

The company's reinsurance portfolio and strategy at the time of the examination 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

1. Type: Excess of Loss
Reinsurer: Safety National Casualty Corporation
Scope: Part One: Workers Compensation
Part Two: Employer's Liability
Retention: \$750,000 each accident and each employee
Coverage: Part One: Statutory limits above retention of \$750,000
Part Two \$1,250,000 above retention of \$750,000
Effective date: September 1, 2021
Termination: September 1, 2022
2. Type: Excess of Loss
Reinsurer: NLC Mutual Insurance Company
Scope: Auto Physical Damage
Retention: \$350,000 per loss occurrence
Coverage: \$1,650,000 per loss occurrence in excess of retention of \$350,000
Effective date: September 1, 2021
Termination: September 1, 2022
3. Type: Excess of Loss
Reinsurer: Great American Insurance Company
Scope: Auto Physical Damage
Retention: \$2,000,000 per loss occurrence
Coverage: \$98,000,000 per loss occurrence in excess of retention of \$2,000,000
Effective date: September 1, 2021
Termination: September 1, 2022

4. Type: Liability Excess of Loss

Reinsurer: As of September 1, 2021, participation was as follows:

Reinsurer

Great American Insurance Company	41.5%
Markel Global Reinsurance Company	<u>58.5</u>
Total	<u>100.0%</u>

Scope: All policies classified by the company as liability business

Retention: Section A: \$1,000,000 per loss occurrence

Section B: \$250,000 of net loss for each uninsured motorist (UM) and underinsured motorist (UIM) coverage, per vehicle, per loss occurrence

Section C: Basket Clash Clause retention of \$500,000 to \$750,000 is applicable when single claims arise from coverage where multiple reinsurance contracts apply to claim.

Coverage: Section A: \$5,000,000 net loss, each loss occurrence above retention of \$1,000,000

Section B: Loss in excess of retention of \$250,000 for uninsured motorist (UM) and underinsured motorist (UIM) coverage, per vehicle, per loss occurrence but Reinsurer is not liable for losses more than the amount specified in Section B, Paragraph A of the Reinsurance Premium Article for each UM and UIM coverage, per Vehicle, per Loss Occurrence

Section C: Basket Cash Coverage shall apply to reduce coverage when single claims arise that are covered under multiple reinsurance contracts.

5. Type: Liability in Excess of Loss

Reinsurer: NLC Mutual Insurance Company

Scope: All policies classified by the company as liability business

Retention: \$6,000,000 per loss occurrence

Coverage: \$4,000,000 per loss occurrence in excess of retention of \$6,000,000 and subject to an additional limitation of \$8,000,000 of Net Loss, per Loss Occurrence.

Effective date: September 1, 2021

Termination: September 1, 2022

6. Type: Cyber Liability Quota Share

Reinsurer: Houston Casualty Company

Scope: Cyber Liability

Retention: \$25,000 per claim

Coverage: 100% of each and every loss after retention, including loss adjustment expense subject to reinsurers limit of \$1,000,000 per loss occurrence and \$5,000,000 for all endorsements. One reinstatement is allowed at the original premium.

Effective date: January 1, 2021

Termination: December 31, 2021

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, 2021, 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.

League of Wisconsin Municipalities Mutual Insurance
Assets
As of December 31, 2021

	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	\$54,254,676	\$	\$54,254,676
Stocks:			
Common stocks	15,825,341		15,825,341
Cash, cash equivalents, and short-term investments	3,430,738		3,430,738
Receivables for securities	2,390		2,390
Investment income due and accrued	335,417		335,417
Premiums and considerations:			
Uncollected premiums and agents' balances in course of collection	4,231,869	5,868	4,226,001
Deferred premiums, agents' balances, and installments booked but deferred and not yet due	2,278,708		2,278,708
Reinsurance:			
Amounts recoverable from reinsurers	71,980		71,980
Electronic data processing equipment and software	311,103	311,103	
Write-ins for other than invested assets:			
NLC mutual – Contributed Capital	768,070		768,070
NLC Mutual – Profit Sharing	4,170,031		4,170,031
Misc Receivables	22,324		22,324
Summary of remaining write-ins	<u>108,348</u>	<u>108,348</u>	<u> </u>
Total Assets	<u>\$85,810,995</u>	<u>\$ 425,319</u>	<u>\$85,385,676</u>

**League of Wisconsin Municipalities Mutual Insurance
Liabilities, Surplus, and Other Funds
As of December 31, 2021**

Losses		\$17,331,711
Loss adjustment expenses		10,858,047
Commissions payable, contingent commissions, and other similar charges		477,420
Other expenses (excluding taxes, licenses, and fees)		493,875
Taxes, licenses, and fees (excluding federal and foreign income taxes)		32,062
Unearned premiums		4,311,531
Ceded reinsurance premiums payable (net of ceding commissions)		(382,202)
Write-ins for liabilities:		
<i>Escheat liability</i>		69
 Total Liabilities		 33,122,513
 Write-ins for special surplus funds:		
Paid in and contributed surplus from the LWM trust	6,495,709	
Gross paid in and contributed surplus	300,000	
Unassigned funds (surplus)	<u>45,467,454</u>	
 Surplus as Regards Policyholders		 <u>52,263,163</u>
 Total Liabilities and Surplus		 <u>\$85,385,676</u>

**League of Wisconsin Municipalities Mutual Insurance
Summary of Operations
For the Year 2021**

Underwriting Income		
Premiums earned		\$25,860,298
Deductions:		
Losses incurred	\$13,357,492	
Loss adjustment expenses incurred	5,082,678	
Other underwriting expenses incurred	6,112,649	
Write-ins for underwriting deductions:		
NLC Mutual - Ceding Commission	<u>(710,008)</u>	
Total underwriting deductions		<u>23,842,811</u>
Net underwriting gain (loss)		2,017,487
Investment Income		
Net investment income earned	1,191,065	
Net realized capital gains (losses)	<u>(87,220)</u>	
Net investment gain (loss)		1,103,845
Other Income		
Net gain (loss) from agents' or premium balances charged off		<u>(35,504)</u>
Net income (loss) before dividends to policyholders and before federal and foreign income taxes		3,085,828
Dividends to policyholders		<u>2,764,121</u>
Net Income (Loss)		<u>\$ 321,707</u>

**League of Wisconsin Municipalities Mutual Insurance
Cash Flow
For the Year 2021**

Premiums collected net of reinsurance		\$25,335,628
Net investment income		1,475,549
Miscellaneous income		<u>(35,504)</u>
Total		26,775,673
Benefit- and loss-related payments	\$12,174,129	
Commissions, expenses paid, and aggregate write-ins for deductions	11,972,314	
Dividends paid to policyholders	2,764,121	
Total deductions		<u>26,910,564</u>
Net cash from operations		(134,891)
Proceeds from investments sold, matured, or repaid:		
Bonds	22,978,738	
Stocks	1,039,259	
Miscellaneous proceeds	<u>48,229</u>	
Total investment proceeds	24,066,226	
Cost of investments acquired (long- term only):		
Bonds	28,036,389	
Stocks	1,091,966	
Total investments acquired	<u>29,128,355</u>	
Net cash from investments		(5,062,129)
Cash from financing and miscellaneous sources:		
Other cash provided (applied)	<u>(9,221)</u>	
Net cash from financing and miscellaneous sources		<u>(9,221)</u>
Reconciliation:		
Net Change in Cash, Cash Equivalents, and Short-Term Investments		(5,206,241)
Cash, cash equivalents, and short-term investments:		
Beginning of year		<u>8,636,979</u>
End of Year		<u>\$ 3,430,738</u>

**League of Wisconsin Municipalities Mutual Insurance
Compulsory and Security Surplus Calculation
December 31, 2021**

Assets		\$80,447,575
Less liabilities		<u>33,122,513</u>
Adjusted surplus		47,325,062
Annual premium:		
Lines other than accident and health	\$23,334,737	
Factor	<u>20%</u>	
Compulsory surplus (subject to a minimum of \$2 million)		<u>4,666,947</u>
Compulsory Surplus Excess (Deficit)		<u>\$42,658,115</u>
Adjusted surplus (from above)		\$47,325,062
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>6,533,726</u>
Security Surplus Excess (Deficit)		<u>\$40,791,336</u>

**League of Wisconsin Municipalities Mutual Insurance
Analysis of Surplus
For the Five-Year Period Ending December 31, 2021**

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

	2021	2020	2019	2018	2017
Surplus, beginning of year	\$48,958,263	\$43,323,838	\$41,335,888	\$38,823,688	\$33,979,357
Net income	321,707	3,754,012	1,293,238	3,113,434	4,711,025
Change in net unrealized capital gains/losses	3,163,549	2,125,376	694,712	(601,234)	133,306
Change in nonadmitted assets	<u>(180,356)</u>	<u>(244,963)</u>	<u> </u>	<u> </u>	<u> </u>
Surplus, End of Year	<u>\$52,263,163</u>	<u>\$48,958,263</u>	<u>\$43,323,838</u>	<u>\$41,335,888</u>	<u>\$38,823,688</u>

**League of Wisconsin Municipalities Mutual Insurance
Insurance Regulatory Information System
For the Five-Year Period Ending December 31, 2021**

The company's NAIC Insurance Regulatory Information System (IRIS) results for the period under examination are summarized below.

Ratio	2021	2020	2019	2018	2017
#1 Gross Premium to Surplus	55%	54%	65%	63%	69%
#2 Net Premium to Surplus	50	49	59	57	63
#3 Change in Net Premiums Written	9	(6)	7	(3)	2
#4 Surplus Aid to Surplus	0	0	0	0	0
#5 Two-Year Overall Operating Ratio	91	88	91	83	81
#6 Investment Yield	1.7*	1.8*	2.3	1.9*	1.7*
#7 Gross Change in Surplus	7	13	5	6	14
#8 Change in Adjusted Surplus	7	13	5	6	14
#9 Liabilities to Liquid Assets	45	45	48	48	50
#10 Agents' Balances to Surplus	8	7	9	9	9
#11 One-Year Reserve Development to Surplus	(7)	(8)	(5)	(10)	(10)
#12 Two-Year Reserve Development to Surplus	(13)	(12)	(13)	(19)	(21)
#13 Estimated Current Reserve Deficiency to Surplus	(6)	(10)	(9)	(14)	(13)

Ratio No. 6 measures the percentage of annual income on the company's investment portfolio. The exception results noted with an asterisk for four of the five years during the examination period were primarily due to low interest rate environment and the company's conservative investment portfolio.

Growth of League of Wisconsin Municipalities Mutual Insurance

Year	Admitted Assets	Liabilities	Surplus as Regards Policyholders	Net Income
2021	\$85,385,676	\$33,122,513	\$52,263,163	\$ 321,707
2020	81,856,941	32,898,678	48,958,263	3,754,012
2019	76,481,121	33,157,383	43,323,838	1,293,238
2018	72,847,064	31,511,176	41,335,888	3,113,434
2017	70,661,874	31,838,186	38,823,688	4,711,025
2016	64,960,904	30,981,547	33,979,357	4,617,293

Year	Gross Premium Written	Net Premium Written	Premium Earned	Loss and LAE Ratio	Expense Ratio	Combined Ratio
2021	\$28,799,113	\$26,098,858	\$28,577,587	71.3%	20.8%	92.1%
2020	26,517,960	23,988,025	26,683,443	62.8	15.3	78.1
2019	27,986,431	25,481,404	27,560,299	69.4	17.0	86.4
2018	26,109,542	23,727,769	26,312,500	61.1	16.6	77.7
2017	26,937,072	24,473,772	26,931,393	60.1	15.7	75.8
2016	26,571,094	24,078,129	26,496,647	61.3	16.3	77.6

Admitted assets and policyholders' surplus increased in each of the previous five years primarily due to positive results from both underwriting and investment. Premiums written and premiums earned fluctuated with a small range as a result of increasing customer counts, decreasing workers' compensation rates, and flat to small increases in liability and auto physical damage rates. The loss and loss adjustment expense ratio fluctuated with claims activities. The combined ratio fluctuated with claims but a special grant program and an increase in loss control efforts had a material impact on 2021.

Reconciliation of Surplus per Examination

No adjustments were made to surplus as a result of the examination.

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. Business Continuity Plan—It is recommended that the company modify its current Business Continuity Plan to recognize its reliance on third-party service providers to ensure that the company is able to continue the organization's business activities and processes should an interruption occur. The review of the plan should be done on an annual basis and should incorporate an assessment of the third-party service providers' disaster recovery plans as it relates to business activities including the security of the company's data. This assessment should include a review of testing performed by third-party service providers.

Action—Compliance

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

Action—Compliance

3. 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 Wis. Stat. 611.63 (4).

Action—Compliance

4. Agents Termination—It is recommended that the company file a notice of termination with OCI within 30 calendar days of the termination date for each agent terminated and send a written notice to the agent within 15 days of filing the termination notice indicating the agent is no longer appointed as a representative of the company and may not act as the company's representative to comply with s. Ins 6.57 (2) Wis. Adm. Code.

Action—Compliance

Summary of Current Examination Results

There were no adverse or material examination findings as a result of the current examination of the company.

VIII. CONCLUSION

The company reported admitted assets of \$85.4 million, liabilities of \$33.1 million, and policyholders' surplus of \$52.3 million for 2021. Operations for 2021 products resulted in net income of \$322,000. Over the five-year period under examination, the company's reported policyholders' surplus increased by 53.8% and earned premium increased by 7.9%. The examination resulted in no recommendations or adjustments to surplus. The company complied with all recommendations made in the prior examination.

IX. SUMMARY OF COMMENTS AND RECOMMENDATIONS

There were no adverse or material examination findings as a result of the current examination of the company.

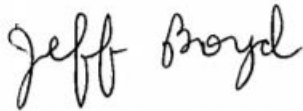
X. ACKNOWLEDGMENT

The courtesy and cooperation extended by the officers and employees of the company during the course of the examination 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
Benjamin Marquardt	Insurance Financial Examiner
Adam Donovan, CISSP	IT Specialist
Kongmeng Yang	Quality Control Specialist
Jerry DeArmond, CFE	Reserve Specialist

Respectfully submitted,



Jeff Boyd
Examiner-in-Charge