

Report
of the
Examination of
League of Wisconsin Municipalities Mutual Insurance
Madison, Wisconsin
As of December 31, 2016

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State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

Scott Walker, Governor
Theodore K. Nickel, Commissioner

Wisconsin.gov

February 20, 2018

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

Honorable Theodore K. Nickel
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 (hereinafter the Company or LWMMI) was conducted in 2012 as of December 31, 2011. The current examination covered the intervening period ending December 31, 2016, and included a review of such 2017 and 2018 transactions as deemed necessary to complete the examination.

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

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. This may include assessing significant estimates made by

management and evaluating management's compliance with statutory accounting principles, annual statement instructions, and Wisconsin laws and regulations. The examination does not attest to the fair presentation of the financial statements included herein. If during the course of the examination an adjustment is identified, the impact of such adjustment will be documented separately at the end of the "Financial Data" section in the area captioned "Reconciliation of Surplus per Examination."

Emphasis was placed on those areas of the Company's operations accorded a high priority by the examiner-in-charge when planning the examination. Special attention was given to the action taken by the Company to satisfy the recommendations and comments made in the previous examination report.

The Company is annually audited by an independent public accounting firm as prescribed by s. Ins 50.05, Wis. Adm. Code. An integral part of this compliance examination was the review of the independent accountant's work papers. Based on the results of the review of these work papers, alternative or additional examination steps deemed necessary for the completion of this examination were performed. The examination work papers contain documentation with respect to the alternative or additional examination steps performed during the course of the examination.

II. HISTORY AND PLAN OF OPERATION

LWMMI was organized in 2002 to provide worker's compensation and liability coverages to Wisconsin municipalities. The League of Wisconsin Municipalities (hereinafter the League), through the League of Wisconsin Municipalities Insurance Trust (hereinafter 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 only in Wisconsin. The main products marketed by the Company include worker's compensation, other liability – occurrence, auto physical damage, and commercial auto liability. The major products are marketed through independent agents of five agencies throughout Wisconsin.

On July 24, 2015, the Company purchased 30 shares of \$1 par value common stock of Municipal Property Insurance Company (hereinafter 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 LWMMI. These three investors all 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.

The following table is a summary of the net insurance premiums written by the Company in 2016. 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 |
|---------------------------------|---------------------------|--------------------------------|------------------------------|------------------------|
| Worker's compensation | \$14,263,502 | \$0 | \$ 783,182 | \$13,480,320 |
| Other liability – occurrence | 8,161,488 | 0 | 1,135,799 | 7,025,689 |
| Commercial auto liability | 2,040,372 | 0 | 283,950 | 1,756,422 |
| Auto physical damage | <u>2,105,732</u> | <u>0</u> | <u>290,034</u> | <u>1,815,698</u> |
| Total All Lines | <u>\$26,571,094</u> | <u>\$0</u> | <u>\$2,492,965</u> | <u>\$24,078,129</u> |

III. MANAGEMENT AND CONTROL

Board of Directors

The board of directors consists of seven members. Two directors are elected annually at the annual meeting of the policyholders, 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.

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 | 2018 |
| David Benforado Madison, Wisconsin | Village Trustee, Village of Shorewood Hills | 2020 |
| Gerard Deschane Stoughton, Wisconsin | Executive Director, League of Wisconsin Municipalities | Permanent |
| Joseph Laux* Eagle River, Wisconsin | City Administrator, City of Eagle River | 2019 |
| Kathleen Morse Rice Lake, Wisconsin | City Clerk/Treasurer, City of Rice Lake | 2019 |
| Mark Rohloff Oshkosh, Wisconsin | City Manager, City of Oshkosh | 2020 |
| Zachary Vruwink Wisconsin Rapids, Wisconsin | Mayor, City of Wisconsin Rapids | 2018 |

*Joseph Laux replaced Ronald G. Hayward as a director of the board in 2017.

Officers of the Company

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

| Name | Office | 2016 Compensation* |
|---------------------|-------------------------|--------------------|
| Dennis Tweedale | Chief Executive Officer | \$220,764 |
| David L. De Angelis | President | 0 |
| Gerard J. Deschane | Secretary/Treasurer | 0 |
| Kathleen V. Morse | Vice President | 0 |

*The CEO position is not elected annually by the board of directors. Officers elected by the board of directors are not paid a salary.

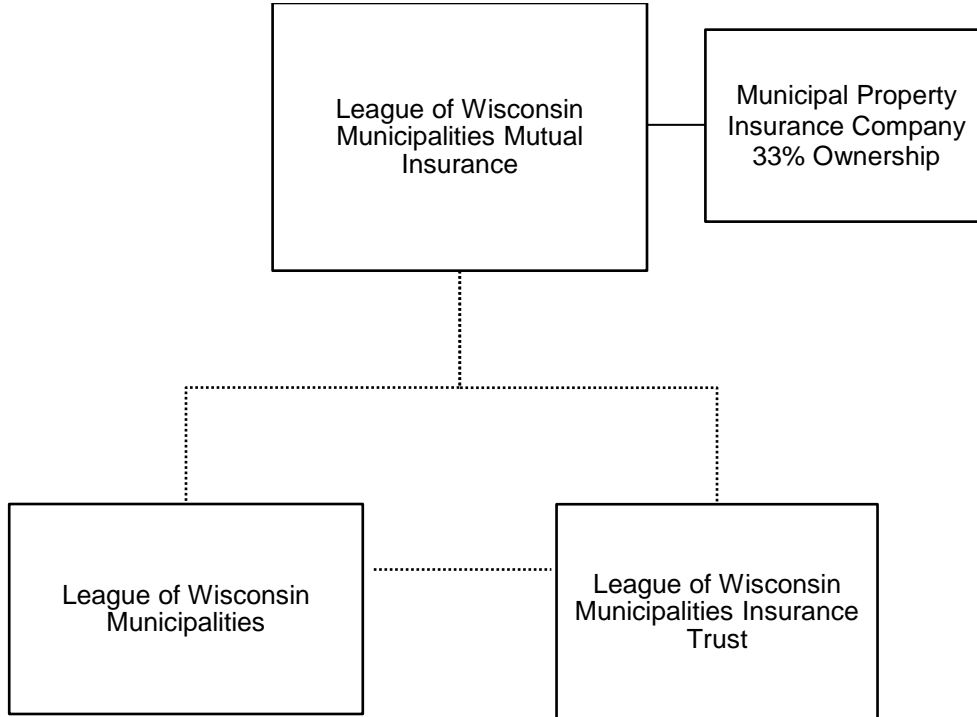
Committees of the Board

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. MPIC is the only affiliated licensed Insurer.

**Organizational Chart
As of December 31, 2016**



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 LWMMI, in equal amounts. Therefore, 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 commenced business on September 1, 2015 to provide property insurance to Wisconsin municipalities. As of December 31, 2016, the audited financial statements of MPIC reported assets of \$13,954,109, liabilities of \$5,386,823, and policyholders' surplus of \$8,567,286. Operations for 2016 produced net income of \$310,767.

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 399 villages. The total number of cities and villages in Wisconsin is 190 and 411, respectively.

The League, by virtue of its sponsorship, has the following rights with regard to 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 of the Company 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.

The Company maintains a service agreement with the League effective October 1, 2014 which automatically renews annually. LWMMI pays the League an annual

retainer of \$50,000 for legal services and an annual royalty of one-tenth of one percent of the direct premiums written by LWMMI as of December 31 of each year for the use of the League's trademark and for other services and opportunities for marketing LWMMI and its insurance products and services. In addition to the aforementioned service and royalty fees, LWMMI and the League agreed on sharing the costs of other projects that will mutually benefit the parties in proportion to the respective benefit to each party.

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, 2016, unaudited financial statements of the Insurance Trust reported no liabilities and assets of \$3,511,903.

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. The members of the board of trustees of the Insurance Trust are also the same directors for the Company.

The Company does not have a service agreement with the Insurance Trust; however, the Insurance Trust maintains a separate service agreement with the League effective October 1, 2014.

V. REINSURANCE

The Company's reinsurance portfolio and strategy is 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 Facultative
Reinsurer: Safety National Casualty Corporation
Scope: Part One: Worker's Compensation
Part Two: Employers' 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
Premium: \$727,447 deposit premium adjustable at a rate of \$0.1487 per \$100 of remuneration subject to a minimum reinsurance premium of \$618,330
Effective date: September 1, 2017
Termination: September 1, 2018
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
Premium: \$172,478 deposit premium adjustable at a rate of \$0.0306 per \$100 of total insured values
Effective date: September 1, 2017
Termination: September 1, 2018
3. Type: Excess of Loss
Reinsurer: RSUI Indemnity 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

Premium: \$115,989

Effective date: September 1, 2017

Termination: September 1, 2018

4. Type: Liability Excess of Loss

Reinsurer: As of September 1, 2017, participation was as follows:

| Reinsurer | Participation Percentages | |
|----------------------------------|---------------------------|---------------|
| | Section A&C | Section B |
| Great American Insurance Company | 15.0% | 41.5% |
| Market Global Ins Co | 50.0 | 58.5 |
| NLC Mutual Insurance Company | <u>35.0</u> | <u>0.0</u> |
| Total | <u>100.0%</u> | <u>100.0%</u> |

| Reinsurer | Participation Percentages | | |
|-----------------------------------|---------------------------|-------------|-------------|
| | Section A | Section B | Section C |
| Great American Insurance Company: | 15.0% | 41.5% | 15.0% |
| Markel Global Insurance Company: | 50.0 | 58.5 | 50.0 |
| NLC Mutual Insurance Company: | <u>35.0</u> | <u>0.0</u> | <u>35.0</u> |
| Total | <u>100%</u> | <u>100%</u> | <u>100%</u> |

Scope: All policies classified by the Company as liability business

Retention: Section A: \$500,000 per loss occurrence

Section B: \$1,000,000 of net loss, per policy, per loss occurrence

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

Coverage: Section A: \$500,000 net loss, each loss occurrence above retention of \$500,000

Section B: \$5,000,000 of net loss, per policy, per loss occurrence above retention of \$1,000,000

Section C: \$250,000 per vehicle/\$750,000 per loss occurrence above retention of \$250,000, or \$750,000 per vehicle/1,750,000 per loss occurrence above retention of \$250,000

Premium: Section A: \$531,368 deposit premium in four equal installments of \$132,842, subject to a minimum premium of

\$451,663, and 5.08% of net subject written premium for the term and for any applicable period of runoff

Section B: \$637,014 deposit premium in four equal installments of \$159,253.50, subject to a minimum premium of \$541,462 and 6.09% of net subject written premium for the term and any applicable period of runoff

Section C: Premium per coverage type

\$250,000/\$750,000 Coverage:

Private Passenger UM: \$4.70 per vehicle

Private Passenger UIM: \$12.80 per vehicle

Other Than Private Passenger UM: \$2.70 per vehicle

Other Than Private Passenger UIM: \$8.94 per vehicle

\$750,000/\$1,750,000 Coverage:

Private Passenger UM: \$6.63 per vehicle

Private Passenger UIM: \$30.16 per vehicle

Other Than Private Passenger UM: \$3.56 per vehicle

Other Than Private Passenger UIM: \$19.59 per vehicle

Effective Date: September 1, 2017

Termination: September 1, 2018

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, 2016, 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, 2016**

| | Assets | Nonadmitted Assets | Net Admitted Assets |
|---|----------------------------|-------------------------------|------------------------------------|
| Bonds | \$47,727,008 | \$0 | \$47,727,008 |
| Stocks: | | | |
| Common stocks | 5,901,459 | | 5,901,459 |
| Cash, cash equivalents, and short-term investments | 4,719,690 | | 4,719,690 |
| Investment income due and accrued | 275,991 | | 275,991 |
| Premiums and considerations: | | | |
| Uncollected premiums and agents' balances in course of collection | 1,563,993 | | 1,563,993 |
| Deferred premiums, agents' balances, and installments booked but deferred and not yet due | 2,333,081 | | 2,333,081 |
| Reinsurance: | | | |
| Amounts recoverable from reinsurers | 19,185 | | 19,185 |
| Write-ins for other than invested assets: | | | |
| NLC Mutual – Contributed Capital | 768,070 | | 768,070 |
| NLC Mutual – Profit Sharing | 1,636,700 | | 1,636,700 |
| Misc Receivables | <u>15,727</u> | <u>0</u> | <u>15,727</u> |
| Total Assets | <u>\$64,960,904</u> | <u>\$0</u> | <u>\$64,960,904</u> |

**League of Wisconsin Municipalities Mutual Insurance
Liabilities, Surplus, and Other Funds
As of December 31, 2016**

| | | |
|---|-------------------|-------------------------|
| Losses | | \$19,426,547 |
| Loss adjustment expenses | | 7,829,475 |
| Commissions payable, contingent commissions, and other similar charges | | 307,114 |
| Other expenses (excluding taxes, licenses, and fees) | | 290,233 |
| Taxes, licenses, and fees (excluding federal and foreign income taxes) | | 5,020 |
| Unearned premiums | | 4,062,327 |
| Ceded reinsurance premiums payable (net of ceding commissions) | | <u>(939,169)</u> |
| Total Liabilities | | 30,981,547 |
| Write-ins for other than 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>27,183,648</u> | |
| Surplus as Regards Policyholders | | <u>33,979,357</u> |
| Total Liabilities and Surplus | | <u>\$64,960,904</u> |

**League of Wisconsin Municipalities Mutual Insurance
Statement of Income
For the Year 2016**

| | | |
|--|------------------|---------------------|
| Underwriting Income | | |
| Premiums earned | | \$23,995,762 |
| Deductions: | | |
| Losses incurred | \$9,399,068 | |
| Loss adjustment expenses incurred | 5,321,489 | |
| Other underwriting expenses incurred | 4,325,784 | |
| Write-ins for underwriting deductions: | | |
| NLC Mutual – Ceding Commission | <u>(397,438)</u> | |
| Total underwriting deductions | | <u>18,648,903</u> |
| Net underwriting gain (loss) | | 5,346,859 |
| Investment Income | | |
| Net investment income earned | 857,596 | |
| Net realized capital gains (losses) | <u>12,838</u> | |
| Net investment gain (loss) | | 870,434 |
| Other Income | | |
| Net income (loss) before dividends to policyholders and before federal and foreign income taxes | | 6,217,293 |
| Dividends to policyholders | | <u>1,600,000</u> |
| Net income (loss) after dividends to policyholders but before federal and foreign income taxes | | 4,617,293 |
| Net Income (loss) | | <u>\$ 4,617,293</u> |

**League of Wisconsin Municipalities Mutual Insurance
Cash Flow
For the Year 2016**

| | | |
|---|----------------|---------------------|
| Premiums collected net of reinsurance | | \$23,721,277 |
| Net investment income | | <u>1,256,451</u> |
| Total | | 24,977,728 |
| Benefit- and loss-related payments | \$9,212,605 | |
| Commissions, expenses paid, and aggregate write-ins for deductions | 8,716,933 | |
| Dividends paid to policyholders | 1,600,000 | |
| Total deductions | | <u>19,529,538</u> |
| Net cash from operations | | 5,448,190 |
| | | |
| Bonds | \$13,258,063 | |
| Total investment proceeds | | 13,258,063 |
| Cost of investments acquired (long-term only): | | |
| Bonds | 18,788,789 | |
| Stocks | <u>181,834</u> | |
| Total investments acquired | | <u>18,970,623</u> |
| Net cash from investments | | (5,712,560) |
| | | |
| Reconciliation: | | |
| Net Change in Cash, Cash Equivalents, and Short-Term Investments | | (264,370) |
| Cash, cash equivalents, and short-term investments: | | |
| Beginning of year | | <u>4,984,060</u> |
| | | |
| End of Year | | <u>\$ 4,719,690</u> |

**League of Wisconsin Municipalities Mutual Insurance
Compulsory and Security Surplus Calculation
December 31, 2016**

| | | |
|--|------------------|---------------------|
| Assets | | \$64,960,904 |
| Less NLC Mutual contributed capital, profit sharing | | 2,404,770 |
| Less liabilities | | <u>30,981,547</u> |
| Adjusted surplus | | 31,574,587 |
| Annual premium: | | |
| Lines other than accident and health | \$24,078,129 | |
| Less dividends to policyholders | <u>1,600,000</u> | |
| | 22,478,129 | |
| Factor | <u>20%</u> | |
| Compulsory surplus (subject to a minimum of \$2 million) | | <u>4,495,625</u> |
| Compulsory Surplus Excess (Deficit) | | <u>\$27,078,961</u> |
| Adjusted surplus (from above) | | \$31,574,587 |
| 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>6,293,875</u> |
| Security Surplus Excess (Deficit) | | <u>\$25,280,711</u> |

**League of Wisconsin Municipalities Mutual Insurance
Analysis of Surplus
For the Five-Year Period Ending December 31, 2016**

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

| | 2016 | 2015 | 2014 | 2013 | 2012 |
|---|---------------------|---------------------|---------------------|---------------------|---------------------|
| Surplus, beginning of year | \$29,096,015 | \$26,752,512 | \$22,270,090 | \$17,650,752 | \$13,226,926 |
| Net income | 4,617,293 | 2,704,346 | 4,302,710 | 4,305,321 | 4,390,024 |
| Change in net unrealized capital gains/losses | 265,081 | (359,875) | 179,712 | 314,017 | 33,802 |
| Change in nonadmitted assets | <u>968</u> | <u>(968)</u> | <u> </u> | <u> </u> | <u> </u> |
| Surplus, End of Year | <u>\$33,979,357</u> | <u>\$29,096,015</u> | <u>\$26,752,512</u> | <u>\$22,270,090</u> | <u>\$17,650,752</u> |

**League of Wisconsin Municipalities Mutual Insurance
Insurance Regulatory Information System
For the Five-Year Period Ending December 31, 2016**

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 | 2016 | 2015 | 2014 | 2013 | 2012 |
|-----|---|-------------|-------------|-------------|-------------|-------------|
| #1 | Gross Premium to Surplus | 78% | 91% | 92% | 109% | 125% |
| #2 | Net Premium to Surplus | 71 | 82 | 82 | 97 | 111 |
| #3 | Change in Net Premiums Written | 1 | 8 | 2 | 11 | 1 |
| #4 | Surplus Aid to Surplus | 0 | 0 | 0 | 0 | 0 |
| #5 | Two-Year Overall Operating Ratio | 85 | 85 | 80 | 78 | 91 |
| #6 | Investment Yield | 1.5* | 1.8* | 2.0* | 1.8* | 1.9* |
| #7 | Gross Change in Surplus | 17 | 9 | 20 | 26 | 33 |
| #8 | Change in Adjusted Surplus | 17 | 9 | 20 | 26* | 33* |
| #9 | Liabilities to Liquid Assets | 51 | 55 | 55 | 61 | 70 |
| #10 | Agents' Balances to Surplus | 5 | 5 | 13 | 7 | 20 |
| #11 | One-Year Reserve Development to Surplus | (13) | (7) | (22) | (36) | (29) |
| #12 | Two-Year Reserve Development to Surplus | (14) | (27) | (56) | (60) | (25) |
| #13 | Estimated Current Reserve Deficiency to Surplus | (12) | (7) | (12) | (21) | (26) |

Ratio No. 6 measures the percentage of annual income on the Company's investment portfolio. The exceptional results for each year during the five-year examination period were primarily due to the low interest rate environment and the Company's conservative investment portfolio.

Ratio No. 8 measures the improvement or deterioration in the company's financial condition during the year based on operational results. The exceptional results for 2012 and 2013 were primarily due to large increases in net income attributable mainly to net underwriting gains.

Growth of League of Wisconsin Municipalities Mutual Insurance

| Year | Admitted Assets | Liabilities | Surplus as Regards Policyholders | Net Income |
|------|--------------------|--------------|--|---------------|
| 2016 | \$64,960,904 | \$30,981,547 | \$33,979,357 | \$ 4,617,293 |
| 2015 | 58,933,839 | 29,837,824 | 29,096,015 | 2,704,346 |
| 2014 | 55,256,596 | 28,504,084 | 26,752,512 | 4,302,710 |
| 2013 | 53,292,150 | 31,022,060 | 22,270,090 | 4,305,321 |
| 2012 | 48,604,856 | 30,954,104 | 17,650,752 | 4,390,024 |
| 2011 | 44,273,309 | 31,046,383 | 13,226,926 | (1,116,314) |

| Year | Gross Premium Written | Net Premium Written | Premium Earned | Loss and LAE Ratio | Expense Ratio | Combined Ratio |
|------|-----------------------------|---------------------------|-------------------|--------------------------|------------------|-------------------|
| 2016 | \$26,571,094 | \$24,078,129 | \$23,995,762 | 61.3% | 16.3% | 77.6% |
| 2015 | 26,383,391 | 23,749,990 | 23,579,255 | 67.6 | 17.3 | 84.9 |
| 2014 | 24,738,436 | 22,042,082 | 21,822,954 | 58.9 | 17.4 | 76.3 |
| 2013 | 24,304,490 | 21,666,617 | 21,150,740 | 58.3 | 17.3 | 75.6 |
| 2012 | 22,052,141 | 19,548,579 | 19,668,967 | 64.2 | 17.5 | 81.7 |
| 2011 | 21,850,132 | 19,419,050 | 19,192,231 | 89.0 | 17.1 | 106.1 |

Admitted assets and policyholders' surplus increased in each of the previous five years primarily due to positive results from both underwriting and investment. Liabilities fluctuated during the period under examination. Premiums written and premiums earned consistently increased during the period under examination due to an increase in exposures and to a lesser extent an increase in rates. The loss and loss adjustment expense ratios and the combined ratios fluctuated during the previous five years. These ratios decreased significantly in 2012 as a result of changes in estimates of insured events from 2002 to 2011. The expense ratio fluctuated slightly during the previous five years, and decreased by one percentage point in 2016.

Reconciliation of Surplus per Examination

No adjustments were made to surplus as a result of the examination. The amount of surplus reported by the Company as of December 31, 2016, is accepted.

VII. SUMMARY OF EXAMINATION RESULTS

Compliance with Prior Examination Report Recommendations

There were four specific comments and recommendations in the previous examination report. Comments and recommendations contained in the last examination report and actions taken by the Company are as follows:

1. Stipulation and Order—It is recommended that the Company provide evidence to the department of their compliance with the stipulation and order within the required timeframe no less than every two years.

Action—No longer applicable

2. Corporate Records—It is again recommended that each of the Company's officers, directors, and key employees annually make conflict of interest disclosures to the Company and that the Company retain the disclosures in the Company's records from examination to examination, in compliance with the directive of the Commissioner of Insurance.

Action—Compliance

3. Prepaid Expenses—It is recommended that the Company report prepaid expenses in accordance with SSAP 4 and SSAP 29 of the NAIC Accounting Practices and Procedures Manual.

Action—Compliance

4. Underwriting—It is recommended that the Company ensure that all New Member Applications for Liability Coverage are signed appropriately, in accordance with the Company's underwriting policies for new applicants.

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.

Business Continuity Plan

The examination noted that the Company's current business operations rely on third-party service providers; however, its Business Continuity Plan did not indicate how the Company would respond to business interruptions caused by these third-party service providers. 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.

Custodial Agreement

The custodial agreement was reviewed to verify it met the applicable statutory requirements and the guidelines for custodial agreements contained in the NAIC Financial Condition Examiner Handbook. The following language was not included in the custodial agreement as a result of the review:

1. In the event that 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 for loss of securities as the custodian.
2. 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.
3. 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.

4. 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.
5. 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.
6. 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.
7. The custodian shall secure and maintain insurance protection in an adequate amount.

It is recommended that the Company amend its custodial agreement to include the specific language prescribed in the NAIC Financial Condition Examiners Handbook.

Executive Compensation

Wis. Stat. 611.63 (4) 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 noted that health and life premiums and retirement fee paid by the employer were not included as compensation in the "All Other Compensation" category of the report. 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).

Agents Termination

Section Ins 6.57 (2) Wis. Adm. Code requires notice of termination of appointment of individual intermediary to be filed with OCI prior or within certain period of time. During the review of the OCI records for appointed agents of the Company, it was noted that several agents were still appointed with the Company although the agencies that the agents were with were no longer agencies of the Company. 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.

VIII. CONCLUSION

The Company was formed by the League, through the Insurance Trust, to provide worker's compensation, liability, as well as auto physical damage coverages to Wisconsin municipalities. The Company only has two employees and contracts out most services.

Policyholders' surplus increased during each of the previous five years, and increased 157% during the period under examination, primarily attributable to net underwriting gains. The amount of premiums written and premiums earned consistently increased during the period under examination due to an increase in exposures and to a lesser extent an increase in rates.

The current examination resulted in no adjustments to surplus or reclassifications of account balances. The examination determined that the Company was in compliance with three of the four recommendations made by the previous examination, and the last recommendation was no longer applicable. The current examination resulted in four recommendations. The Company reported total admitted assets of \$64,960,904, total liabilities of \$30,981,547, and policyholders' surplus of \$33,979,357 at December 31, 2016.

IX. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 24 - 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.
2. Page 24 - 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.
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 Wis. Stat. 611.63 (4).
4. Page 25 - 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.

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 |
|----------------|------------------------------|
| Shelly Bueno | Insurance Financial Examiner |
| Dana Tice | Insurance Financial Examiner |
| Gene Renard | ACL Specialist |
| Eleanor Lu | IT Specialist |
| Jerry DeArmond | Reserve Specialist |
| Karl Albert | Workpaper Specialist |

Respectfully submitted,

Xiaozhou (Zoey) Ye
Examiner-in-Charge