

Report of the Examination of
Maple Valley Mutual Insurance Company
Lena, Wisconsin
As of December 31, 2022

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September 27, 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:

MAPLE VALLEY MUTUAL INSURANCE COMPANY
Lena, Wisconsin

and this report is respectfully submitted.

I. INTRODUCTION

The previous examination of Maple Valley Mutual Insurance Company (the company) was conducted in 2018 as of December 31, 2017. The current examination covered the intervening period ending December 31, 2022, and included a review of such subsequent transactions as deemed necessary to complete the examination.

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

In addition to auditing, the public accounting firm performs non-auditing services for the company, including assistance with complex transactions such as accounting for income taxes and compilation of the annual statement. On December 20, 2010, an exemption was granted by the commissioner, pursuant to s. Ins 50.08 (5), Wis. Adm. Code, permitting the independent auditor to perform this non-audit work for the company.

II. HISTORY AND PLAN OF OPERATION

The company was organized in 1891 as Maple Valley Mutual Home Fire Insurance Company. Subsequent amendments to the company's articles and bylaws changed the company's name to that presently used. On January 1, 1987, the company converted from a town mutual insurer licensed under ch.612, Wis. Stat., to a nonassessable domestic mutual insurer licensed under ch. 611, Wis. Stat.

The company is licensed only in Wisconsin and is limited by order to writing business in 21 counties. In the state of Wisconsin, the company is licensed to transact the following lines of business as defined by s. Ins 6.75 (2), Wis. Adm. Code:

- (a) Fire, Inland Marine, and Other Property
- (d) Liability and Incidental Medical Expense
- (e) Automobile
- (o) Aircraft

The major products marketed by the company include farmowners, homeowners, dwelling, commercial multiple peril, fire, allied lines, businessowners, and artisans. The company has approximately 209 independent agents, representing 36 agencies with 55 locations in Northeastern Wisconsin.

In 2022, the company wrote direct premium in the following state:

<i>Wisconsin</i>	\$7,611,304	100%
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The following table is a summary of the net insurance premiums written by the company in 2022. The growth of the company is discussed in the “Financial Data” section of this report.

Line of Business	Direct Premium	Reinsurance Assumed	Reinsurance Ceded	Net Premium
Fire	\$ 501,262	\$	\$ 94,722	\$ 406,540
Allied lines	334,174		63,148	271,026
Farmowners multiple peril	3,194,026		603,566	2,590,460
Homeowners multiple peril	2,339,290		442,049	1,897,241
Commercial multiple peril (non-liability portion)	944,803		178,537	766,266
Commercial multiple peril (liability portion)	182,415		34,470	147,945
Other liability – occurrence	<u>115,334</u>		<u>109,215</u>	<u>6,119</u>
Total All Lines	<u>\$7,611,304</u>	<u>\$0</u>	<u>\$1,525,707</u>	<u>\$6,085,597</u>

III. MANAGEMENT AND CONTROL

Board of Directors

The board of directors consists of eight members. Three directors are elected annually to serve a three-year term. Officers are elected at the board's annual meeting. The board members currently receive a per diem of \$400 per meeting for serving on the board.

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

Name	Principal Occupation	Term Expires
Michael Alsteen Lena, Wisconsin	Farmer	2025
Adam DuBois Green Bay, Wisconsin	Business Owner	2023
Dana Koutnik Sherwood, Wisconsin	Consultant	2025
James Kugel Lena, Wisconsin	Business Owner	2023
Duane Magnin Oconto Falls, Wisconsin	Business Owner	2024
Dale Mohr Sobieski, Wisconsin	Associate Professor	2023
Chad Schuettpelz Ledgeview, Wisconsin	Mutual Manager	2025
Linda Sinkula Kewaunee, Wisconsin	Farmer	2024

Officers of the Company

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

Name	Office
Chad Schuettpelz	President & Treasurer
James Kugel	Secretary/Vice Chairman of Board
Duane Magnin	Chairman of Board
Renee Marie Wirtz	Vice President - Operations

Committees of the Board

The company's bylaws allow for the formation of certain committees by the board of directors.

The committees at the time of the examination are listed below:

Executive Committee

Duane Magnin, Chair
Chad Schuettpelz
James Kugel

Adjusting Committee

Duane Magnin, Chair
Chad Schuettpelz
James Kugel
Travis Schreiber

Nominating Committee

Dana Koutnik, Chair
Chad Schuettpelz
Linda Sinkula

Audit Committee

Duane Magnin, Chair
Chad Schuettpelz
James Kugel

Investment Committee

Duane Magnin, Chair
Chad Schuettpelz
James Kugel

IV. 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.

The examiners' review of the company's reinsurance portfolio revealed there is currently one ceding treaty.

Reinsurer: Wisconsin Reinsurance Corporation
Effective date and term: January 1, 2023, and continuously thereafter until terminated
Termination provisions: On any January 1st by either party with 90 days advanced written notice

The coverages provided under this treaty are summarized as follows:

1. Type of contract: Casualty Excess of Loss Insurance
Scope: All casualty or liability business written by the company; does not cover umbrella liability or workers' compensation
Retention: \$75,000 in respect to each and every loss occurrence
Coverage: 100% of each and every loss, including loss adjustment expense, in excess of the company's net retention of \$75,000, subject to the maximum policy limits stated below:
 - a. \$1,000,000 per occurrence, single limit, combined for bodily injury and property damage liability
 - b. \$1,000,000 split limits, in any combination of bodily injury and property damage liability
 - c. \$25,000 for medical payments, per person
 - d. \$25,000 for medical payments, per accident for personal lines
2. Type of contract: Combination Umbrella Liability Quota Share and Excess of Loss
Scope: All business written by the company classified as umbrella liability
Coverage: Part 1 – 95% Quota Share of the first \$1,000,000 limit of liability subject to a maximum limit of liability of \$950,000 Part 2 – 100% of \$4,000,000 in excess of \$1,000,000 per policy, per occurrence including loss adjustment expense, in excess of a net retention of \$1,000,000
3. Type of contract: First per Risk Excess of Loss Reinsurance
Scope: All property business written by the company
Retention: \$200,000 in respect to each and every risk resulting from one loss occurrence
Coverage: 100% of each and every loss, including loss adjustment expense in

excess of the company's retention of \$100,000, subject to a limit of 100% of \$800,000

4. Type of contract: Second per Risk Excess of Loss Reinsurance
- Scope: All property business written by the company
- Retention: \$1,000,000 in respect to each and every risk resulting from one occurrence
- Coverage: 100% of each and every loss, including loss adjustment expense, in excess of retention of \$1,000,000 in respect to each and every risk resulting from one occurrence
- Limit: 100% of \$1,000,000, in respect to each and every risk resulting from one occurrence
5. Type of contract: First Catastrophe Excess of Loss Reinsurance
- Scope: All property business written by the company
- Retention: \$1,500,000 in for to each loss occurrence during each annual period
- Coverage: For the amount by which the company's losses, including loss adjustment expense, exceed an amount equal to the retention of \$1,500,000.
- Limit: 100% of \$2,500,000 per annual period
6. Type of contract: First Aggregate Excess of Loss Reinsurance
- Scope: All business written by the company
- Attachment Point: 77% of net earned premium, estimated attachment point of \$4,862,716
- Coverage: 100% of the amount, if any, by which the aggregate of the company's net losses, including loss adjustment expense, that occur during the annual periods exceed the attachment point of 77% of net premium.
- Limit: 100% of 40% of annual net premium
7. Type of contract: Second Aggregate Excess of Loss Reinsurance
- Scope: All business written by the company
- Attachment Point: In respect to each annual period, the company shall retain net for its own account of net loss, including loss adjustment expenses, equal to not less than the Attachment Point of 117% of net premium
- Coverage: 100% of the amount, if any, by which the aggregate of the company's net losses, including loss adjustment expense, that occur during the annual periods exceed the attachment point of 117% of net premium.
- Limit: 100% of all loss, including loss adjustment expense, in excess of the retention

V. FINANCIAL DATA

The following financial statements reflect the financial condition of the company as reported to the commissioner of insurance in the December 31, 2022, 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 and the compulsory and security surplus calculation.

Maple Valley Mutual Insurance Company
Assets
As of December 31, 2022

	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	\$ 6,842,083	\$	\$ 6,842,083
Stocks:			
Preferred stocks	75,000		75,000
Common stocks	4,030,451		4,030,451
Real estate:			
Occupied by the company	866,387		866,387
Properties held for the production of income	65,440		65,440
Cash, cash equivalents, and short-term investments	3,203,264		3,203,264
Investment income due and accrued	46,664		46,664
Premiums and considerations:			
Uncollected premiums and agents' balances in course of collection	56,422	3,655	52,767
Deferred premiums, agents' balances, and installments booked but deferred and not yet due	1,071,536		1,071,536
Reinsurance:			
Amounts recoverable from reinsurers	148,913		148,913
Current federal and foreign income tax recoverable and interest thereon	479,713		479,713
Electronic data processing equipment and software	6,994		6,994
Furniture and equipment, including health care delivery assets	1,979	1,979	
Vehicles	14,423	14,423	
Wisconsin income taxes receivable	<u>95,290</u>		<u>95,290</u>
Total Assets	<u>\$17,004,559</u>	<u>\$20,057</u>	<u>\$17,004,559</u>

Maple Valley Mutual Insurance Company
Liabilities, Surplus, and Other Funds
As of December 31, 2022

Losses		\$ 663,759
Loss adjustment expenses		48,864
Commissions payable, contingent commissions, and other similar charges		273,551
Other expenses (excluding taxes, licenses, and fees)		247,783
Taxes, licenses, and fees (excluding federal and foreign income taxes)		9,162
Net deferred tax liability		326,000
Unearned premiums		3,788,251
Advance premium		130,513
Ceded reinsurance premiums payable (net of ceding commissions)		<u>54,672</u>
Total Liabilities		5,542,555
Unassigned funds (surplus)	<u>\$11,441,947</u>	
Surplus as Regards Policyholders		<u>11,441,947</u>
Total Liabilities and Surplus		<u>\$16,984,502</u>

Maple Valley Mutual Insurance Company
Summary of Operations
For the Year 2022

Underwriting Income		
Premiums earned		\$ 6,015,352
Deductions:		
Losses incurred	\$4,077,191	
Loss adjustment expenses incurred	856,336	
Other underwriting expenses incurred	<u>2,918,647</u>	
Total underwriting deductions		<u>7,852,174</u>
Net underwriting loss		(1,836,822)
Investment Income		
Net investment income earned	84,429	
Net realized capital gains (losses)	<u>38,490</u>	
Net investment gain (loss)		122,919
Other Income		
Finance and service charges not included in premiums	197,048	
Write-ins for miscellaneous income:		
Miscellaneous	<u>167</u>	
Total other income		<u>197,215</u>
Net income (loss) before dividends to policyholders and before federal and foreign income taxes		<u>(1,516,688)</u>
Net income (loss) after dividends to policyholders but before federal and foreign income taxes		(1,516,688)
Federal and foreign income taxes incurred		<u>(290,551)</u>
Net Income (Loss)		<u>\$(1,226,137)</u>

Maple Valley Mutual Insurance Company
Cash Flow
For the Year 2022

Premiums collected net of reinsurance		\$6,041,686
Net investment income		160,869
Miscellaneous income		<u>197,215</u>
Total		6,399,770
Benefit- and loss-related payments	\$4,659,337	
Commissions, expenses paid, and aggregate write-ins for deductions	<u>3,904,915</u>	
Total deductions		<u>8,564,252</u>
Net cash from operations		(2,164,482)
Proceeds from investments sold, matured, or repaid:		
Bonds	\$1,100,000	
Stocks	<u>93,958</u>	
Total investment proceeds		1,193,958
Cost of investments acquired (long- term only):		
Bonds	1,133,056	
Stocks	44,624	
Real estate	<u>471,649</u>	
Total investments acquired		<u>1,649,329</u>
Net cash from investments		(455,371)
Cash from financing and miscellaneous sources:		
Other cash provided (applied)	<u>22,184</u>	
Net cash from financing and miscellaneous sources		<u>22,184</u>
Reconciliation:		
Net Change in Cash, Cash Equivalents, and Short-Term Investments		
		(2,597,669)
Cash, cash equivalents, and short-term investments:		
Beginning of year		<u>5,801,023</u>
End of Year		<u>\$3,203,354</u>

**Maple Valley Mutual Insurance Company
Compulsory and Security Surplus Calculation
December 31, 2022**

Assets		\$16,984,502
Less liabilities		<u>5,542,555</u>
Adjusted surplus		11,441,947
Annual premium:		
Lines other than accident and health	\$6,085,597	
Factor	<u>20%</u>	
Compulsory surplus (subject to a minimum of \$2 million)		<u>2,000,000</u>
Compulsory Surplus Excess (Deficit)		<u>\$9,441,947</u>
Adjusted surplus (from above)		\$11,441,947
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>\$8,641,947</u>

**Maple Valley Mutual Insurance Company
Analysis of Surplus
For the Five-Year Period Ending December 31, 2022**

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

	2022	2021	2020	2019	2018
Surplus, beginning of year	\$13,418,168	\$12,565,965	\$11,400,699	\$10,958,163	\$9,971,828
Net income	(1,226,137)	417,855	763,543	(109,616)	1,018,942
Change in net unrealized capital gains/losses	(757,986)	399,908	370,711	546,143	(52,350)
Change in net deferred income tax	(6,000)	7,000	3,000	6,051	(11,325)
Change in nonadmitted assets	13,902	27,440	28,012	258	31,068
Surplus, End of Year	<u>\$11,441,947</u>	<u>\$13,418,168</u>	<u>\$12,565,965</u>	<u>\$11,400,699</u>	<u>\$10,958,163</u>

Growth of Maple Valley Mutual Insurance Company

Year	Admitted Assets	Liabilities	Surplus as Regards Policyholders	Net Income
2022	\$16,984,502	\$5,542,555	\$11,441,947	\$(1,226,137)
2021	19,730,832	6,312,664	13,418,168	417,855
2020	17,748,164	5,182,199	12,565,965	763,543
2019	16,522,452	5,121,753	11,400,699	(109,916)
2018	15,682,611	4,724,448	10,958,163	1,018,942
2017	14,848,773	4,876,945	9,971,828	418,854

Year	Gross Premium Written	Net Premium Written	Premium Earned	Loss and LAE Ratio	Expense Ratio	Combined Ratio
2022	\$7,611,304	\$6,085,597	\$6,015,352	82.0%	44.7%	126.7%
2021	7,432,900	6,052,243	5,932,274	52.6	44.5	97.1
2020	7,128,792	5,850,859	5,769,786	41.0	44.7	85.7
2019	6,929,291	5,711,125	5,594,136	70.6	37.2	107.8
2018	6,734,454	5,530,635	5,502,950	45.3	36.1	81.4
2017	6,686,458	5,501,453	5,449,064	60.5	32.9	93.4

Since 2017, the company has experienced consistent gross and net premium growth. Gross premiums increased from \$6.7 million in 2017 to \$7.6 million in 2022. Net premiums increased from \$5.5 million to \$6.1 million over the same period. During the examination period, the company's loss and LAE ratio ranged between 45% and 82% (hitting its peak in 2022). The company's expense ratio has grown

from 33% in 2017 to 45% in 2020 and has since leveled out. The company's combined ratio has ranged from 81% to 127% in 2022 and has exceeded 100% twice in the examination period.

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, 2022, is accepted.

VI. SUMMARY OF EXAMINATION RESULTS

Compliance with Prior Examination Report Recommendations

There were three specific recommendations in the previous examination report. The actions taken by the company as a result of the recommendations were as follows:

1. Committees of the Board of Directors—It is recommended that the company amend its articles of incorporation or bylaws to provide that the board of directors may designate one or more committees, as the board of directors deems appropriate, in addition to the Executive Committee, in accordance with s. 611.56 (1), Wis. Stat.

Action—Compliance.

2. Written Policies—It is recommended that the company's Code of Ethics be amended to require that directors with a potential conflict of interest properly abstain from voting on matters affecting their interest and that the minutes clearly indicate their abstention, pursuant to 611.60 (2), Wis. Stat.

Action—Compliance.

3. Information Technology— It is recommended that the company strengthen its information system controls in accordance with the recommendations made in the letter to management dated July 31, 2018.

Action—Partial 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

The company has a safekeeping agreement with its custodial bank. The examination reviewed the company's Custodial Agreement with its custodial bank and identified that the agreement does not contain all the provisions recommended by the National Association of Insurance Commissioners (NAIC) *Financial Condition Examiners Handbook*. It is recommended that the company amend its Custodial Agreement to conform with standards set forth by the NAIC *Financial Condition Examiners Handbook*. The recommended clauses include the following:

- The custodian is obligated to indemnify the insurance company for any loss of securities of the insurance company in the custodian's custody occasioned by the negligence or dishonesty of the custodian's officers or employees, or burglary, robbery, holdup, theft, or mysterious disappearance, including loss by damage or destruction.
- In the event of a loss of securities of which the custodian is obligated to indemnify the insurance company, the securities shall be properly replaced or the value of the securities and the value of any loss of rights or privileges resulting from said loss of securities shall be promptly replaced.
- 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.

Conflict of Interest Statements

For the entire examination period, the examiners requested conflict of interest statements for all company officers and board members. Although the company completed the majority of the required conflict of interest statements, the company did not complete a conflict of interest statement for the Vice President of Operations between 2020 and 2022. It is recommended that annually the company complete conflict of interest statements for all officers pursuant to the commissioner's directive on conflict of interest statements.

Business Continuity Plan Testing

During the examination period, the company created an acceptable Business Continuity Plan. However, the examination determined that there is no formal testing of the plan. It is recommended that the company implements regular testing of the business continuity plan.

VII. CONCLUSION

Maple Valley Mutual Insurance Company is a property and casualty insurance company licensed to write in 21 counties in northeastern Wisconsin. The company converted from a town mutual insurer to a non-assessable Chapter 611 domestic insurer effective January 1, 1987. The major products marketed by the company are farmowners and homeowners multiple peril.

During the period under examination, the company has experienced consistent gross and net premium growth. Gross premiums increased from \$6.7 million in 2017 to \$7.6 million in 2022. Net premiums increased from \$5.5 million to \$6.1 million over the same period. During the examination period, the company's loss and LAE ratio ranged between 45% and 82% hitting its peak in 2022. The company's expense ratio has grown from 33% in 2017 to 45% in 2020 and has since leveled out. The company's combined ratio has ranged from 81% to 127% in 2022 and exceeded 100% twice in the examination period.

The current examination resulted in three recommendations. No adjustments were made to the company's reported surplus. The amount of surplus reported by the company as of December 31, 2022, is accepted.

VIII. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 18 - Custodial Agreement—It is recommended that the company amend its Custodial Agreement to conform with standards set forth by the NAIC Financial Condition Examiners Handbook.
2. Page 18 - Conflict of Interest Statements—It is recommended that annually the company complete conflict of interest statements for all officers pursuant to the commissioner's directive on conflict of interest statements.
3. Page 19 - Business Continuity Plan Testing—It is recommended that the company implements regular testing of the business continuity plan.

IX. 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
Yi Xu	Insurance Financial Examiner, Senior
Adam Donovan, CISSP	IT Specialist
Kongmeng Yang, AFE	Quality Control Specialist
Jerry DeArmond, CFE	Reserve Specialist

Respectfully submitted,



Mike Miller, CFE
Examiner-in-Charge

X. SUBSEQUENT EVENT

On May 23, 2022, this office petitioned the Dane County Circuit Court to put Wisconsin Reinsurance Corporation (WRC), the company's sole reinsurer, into rehabilitation. The court approved the rehabilitation and issued the Order of Rehabilitation of WRC on June 20, 2023. Since entering rehabilitation, WRC has issued non-renewal notices and will not be offering reinsurance for 2024, resulting in the company having to find a different reinsurer for an effective date of January 1, 2024. As of the date of this report, the company is seeking quotes from multiple reinsurers and has yet to identify a carrier.