

Report
of the
Examination of
Municipal Property Insurance Company
Middleton, Wisconsin
As of December 31, 2017

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State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

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March 15, 2019

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Honorable Mark V. Afable
Commissioner of Insurance
State of Wisconsin
125 South Webster Street
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Commissioner:

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

MUNICIPAL PROPERTY INSURANCE COMPANY
Middleton, Wisconsin

and this report is respectfully submitted.

I. INTRODUCTION

The examination of Municipal Property Insurance Company (MPIC or the company) was conducted in 2019 as of December 31, 2017. This is the first examination of the company since its formation in 2015. The examination covered the intervening period ending December 31, 2017, and included a review of such 2018 and 2019 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 document system controls and procedures used to mitigate those risks. The approach was modified to focus on the significant financial statement balances and transactions.

All significant accounts and activities of the company were considered in accordance with the modified risk-focused examination process. This includes 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.

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

MPIC was incorporated in the state of Wisconsin on May 28, 2015, and commenced business on September 1, 2015. The company was formed to provide property insurance coverage to Wisconsin municipalities. It was established as a stock insurance company owned equally by Cities & Villages Mutual Insurance Company (CVMIC), League of Wisconsin Municipalities Mutual Insurance (LWMMI), and Wisconsin Municipal Mutual Insurance Company (WMMIC). The company received \$9,000,000 of initial capital in July 2015 (\$3,000,000 each from CVMIC, LWMMI, and WMMIC) to fund the start-up of the company.

Initially, MPIC provided coverage to the members of the three founding municipal mutual companies to replace property coverage previously provided by the Local Government Property Insurance Fund. However, the company has expanded its membership and currently offers property coverage to municipalities in the state of Wisconsin. The company's income is exempt from federal and state income taxes. The company's only employee is its Chief Executive Officer (CEO). Operations of the company are performed by a number of service providers.

In 2017, the company only wrote premium Wisconsin of \$10.2 million. The major products marketed by the company include allied lines, fire, inland marine, and boiler and machinery. The major products are marketed through eight independent agents.

The following table is a summary of the net insurance premiums written by the company in 2017. The growth of the company is discussed in the "Financial Data" section of this report.

Line of Business	Direct Premium	Reinsurance Assumed	Reinsurance Ceded	Net Premium
Fire	\$ 2,947,978	\$0	\$ 977,325	\$1,970,653
Allied lines	5,895,957		1,954,650	3,941,307
Inland marine	982,659		325,774	656,885
Boiler and machinery	<u>412,333</u>	—	<u>140,795</u>	<u>271,538</u>
Total All Lines	<u>\$10,238,927</u>	<u>\$0</u>	<u>\$3,398,544</u>	<u>\$6,840,383</u>

III. MANAGEMENT AND CONTROL

Board of Directors

The board of directors consists of seven members. Each of the three shareholders nominates candidates to fill two of the seven director positions. The six directors nominated by the shareholders are divided into two classes, with each class containing one director designated by each of the three shareholders. Each class of directors serves a two-year term. The CEO of MPIC serves ex officio as a director of the company with full voting rights. Officers are elected at the board's annual meeting. The board members do not receive any compensation for serving on the board.

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

Name and Residence	Principal Occupation	Term Expires
Dennis Tweedale Madison, Wisconsin	CEO of LWMMI	2019
Dean Boes Lake Mills, Wisconsin	Executive Director of WMMIC	2019
Blair Rogacki Colgate, Wisconsin	Executive Director/CEO of MPIC	Automatic one-year term
Michelle Voskuil Greenfield, Wisconsin	CFO of CVMIC	2019
Gerard Deschane Stoughton, Wisconsin	Executive Director of LWMMI	2020
Kenneth Horner Trevor, Wisconsin	Director of Operations at CVMIC	2020
Eric Veum Sun Prairie, Wisconsin	Risk manager for City of Madison	2020

Officers of the Company

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

Name	Office	2017 Compensation
Blair Rogacki	Executive Director/CEO	\$182,491
Dennis Tweedale	President	0
Dean Boes	Secretary	0
Michelle Voskuil	Treasurer	0

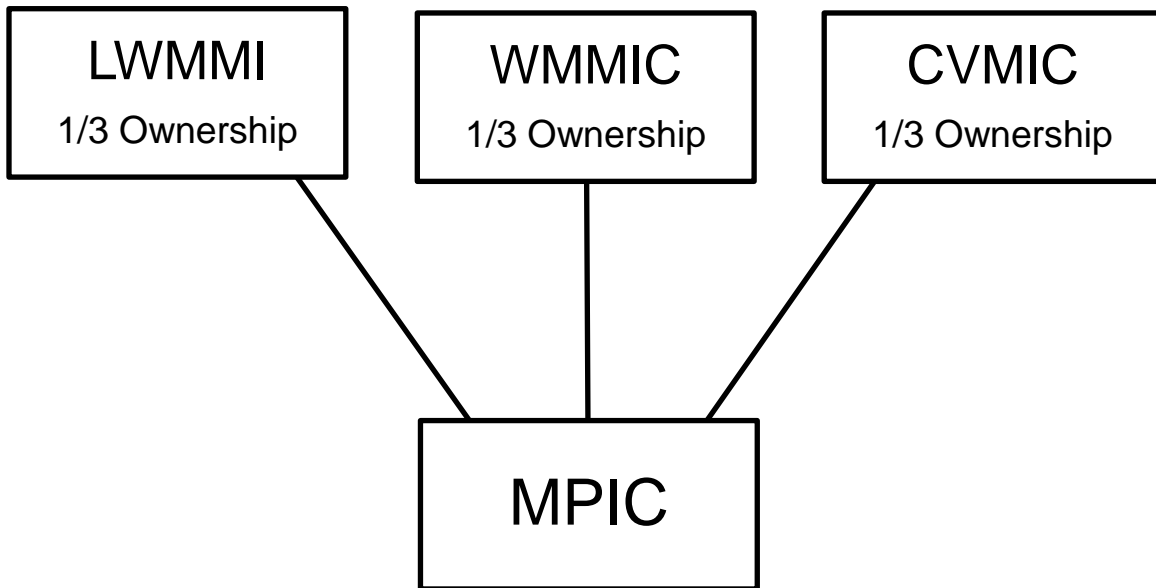
Committees of the Board

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

MPIC is a member of a holding company system. It was established as a stock insurance company owned equally by CVMIC, LWMMI, and WMMIC. The organizational chart below depicts the relationships among the affiliates in the group. A brief description of the significant affiliates follows the organizational chart.

**Organizational Chart
As of December 31, 2017**



League of Wisconsin Municipalities Mutual Insurance

LWMMI was organized in 2002 to provide workers' compensation and liability coverage to Wisconsin municipalities. It is licensed and writes premiums only in Wisconsin. The main products marketed by LWMMI include workers' compensation, other liability – occurrence, auto physical damage, and commercial auto liability. Insurance products are marketed through independent agents in five agencies throughout Wisconsin.

As of December 31, 2017, the audited statutory financial statements of LWMMI reported assets of \$71,484,333, liabilities of \$32,660,645, and policyholders' surplus of \$38,823,688. Operations for 2017 produced net income of \$4,711,025.

Cities & Villages Mutual Insurance Company

CVMIC was formed in 1987 by 20 municipalities to provide liability insurance for municipal operations. CVMIC was created for the purpose of providing member communities with stable liability insurance coverage and focused risk management services previously not available to public entities in Wisconsin. CVMIC writes municipal liability insurance to member municipalities in the state of Wisconsin, including general liability, public officials' liability, law enforcement liability, workers' compensation, commercial auto liability, and auto physical damage coverage.

As of December 31, 2017, the audited statutory financial statements of CVMIC reported assets of \$52,104,920, liabilities of \$23,515,459, and policyholders' surplus of \$28,589,461. Operations for 2017 produced net loss of \$654,732.

Wisconsin Municipal Mutual Insurance Company

WMMIC was organized in 1987 to provide automobile liability and general liability insurance to its members. All of its members are counties, cities or other municipal entities within the state of Wisconsin, and the company is licensed only in Wisconsin. WMMIC offers general liability, auto liability, public official's errors and omission liability, and excess workers' compensation coverage to its members.

As of December 31, 2017, the audited statutory financial statements of WMMIC reported assets of \$50,129,143, liabilities of \$19,408,433, and policyholders' surplus of \$30,720,710. Operations for 2017 produced net loss of \$641,081.

V. REINSURANCE

The company's reinsurance portfolio and strategy 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 company also buys terrorism coverage and equipment breakdown coverage. The contracts contained proper insolvency provisions.

1. Type: Property Facultative Reinsurance
Reinsurer: The Travelers Indemnity Company – 50% placement
Scope: Risks of direct physical loss or damage as detailed in the original policies. Certain restrictions apply.
Retention: \$500,000 per occurrence
Coverage: \$500,000,000 (50% of \$1,000,000,000) per occurrence, in excess of the company's retention
Premium: \$2,021,637 Minimum Annual Premium
Commissions: None
Intermediary: Alliant Insurance Services, Inc.
Effective date: September 1, 2018
Termination: September 1, 2019
2. Type: Market Reform Contract
Reinsurer: Various Underwriters at Lloyds, London – 50% placement
Scope: Risks of direct physical loss or damage as detailed in the original policies. Certain restrictions apply.
Retention: \$500,000 per occurrence, inclusive of individual deductibles in policy
Coverage: \$12,500,000 (50% of \$25,000,000) per occurrence in excess of the company's retention
Premium: \$1,339,064 Minimum Annual Premium
Commissions: None
Intermediary: Alliant Insurance Services, Inc.
Effective date: September 1, 2018
Termination: September 1, 2019

3. Type: Property Facultative Reinsurance
- Reinsurer: National Union Fire Insurance Company of Pittsburgh, PA – 50% placement
- Scope: Risks of direct physical loss or damage as detailed in the original policies. Certain restrictions apply.
- Retention: \$500,000 is retained by the company, inclusive of individual deductibles in policy, and 50% of \$25,000,000 above the company's retention is covered by the Market Reform Contract described above
- Coverage: \$487,500,000 (50% of \$975,000,000) excess of company's retention and other coverages
- Premium: Total Premium: \$450,000
- Commissions: \$10,000 Flat Commission
- Intermediary: Alliant Insurance Services, Inc.
- Effective date: September 1, 2018
- Termination: September 1, 2019
4. Type: Equipment Breakdown Quota Share Reinsurance Contract
- Reinsurer: Continental Casualty Insurance Company
- Scope: Boiler and Machinery/Equipment Breakdown
- Retention: \$0
- Coverage: 100% quota share participation of the loss not to exceed \$250,000,000
- Premium: 100% of the premium related to Equipment Breakdown coverage premium
- Commissions: 20% of reinsurance premium
- Intermediary: Alliant Insurance Services, Inc.
- Effective date: September 1, 2017
- Termination: September 1, 2020
5. Type: Market Reform Contract
- Reinsurer: Various Underwriters at Lloyds, London – 100% placement
- Scope: Terrorism and Sabotage Reinsurance, as detailed in the Policy Wording

Retention:	\$25,000 per occurrence in respect of Physical Damage and Time Element Combined.
Coverage:	\$100,000,000 per occurrence and in the annual aggregate
Premium:	\$150,080
Commissions:	None
Intermediary:	Alliant Insurance Services, Inc.
Effective date:	September 1, 2018
Termination:	September 1, 2019

VI. FINANCIAL DATA

The following financial statements reflect the financial condition of the company as reported to the Commissioner of Insurance in the December 31, 2017, annual statement.

Adjustments made as a result of the examination are noted at the end of this section in the area captioned "Reconciliation of Surplus per Examination." Also included in this section are schedules that reflect the growth of the company, NAIC Insurance Regulatory Information System (IRIS) ratio results for the period under examination, and the compulsory and security surplus calculation.

Municipal Property Insurance Company
Assets
As of December 31, 2017

	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	\$11,282,055	\$	\$11,282,055
Cash, cash equivalents, and short-term investments	1,919,360		1,919,360
Investment income due and accrued	55,997		55,997
Premiums and considerations:			
Uncollected premiums and agents' balances in course of collection	355,442	42,188	313,254
Reinsurance:			
Amounts recoverable from reinsurers	<u>668,101</u>	<u> </u>	<u>668,101</u>
Total Assets	<u>\$14,280,955</u>	<u>\$42,188</u>	<u>\$14,238,767</u>

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

Losses		\$ 2,260,626
Loss adjustment expenses		175,582
Commissions payable, contingent commissions, and other similar charges		25,710
Other expenses (excluding taxes, licenses, and fees)		157,500
Unearned premiums		2,175,802
Advance premium		331,439
Ceded reinsurance premiums payable (net of ceding commissions)		319,106
Total Liabilities		<u>5,445,765</u>
Common capital stock	\$ 90	
Gross paid in and contributed surplus	8,999,910	
Unassigned funds (surplus)	<u>(206,998)</u>	
Surplus as Regards Policyholders		<u>8,793,002</u>
Total Liabilities and Surplus		<u>\$14,238,767</u>

**Municipal Property Insurance Company
Summary of Operations
For the Year 2017**

Underwriting Income

Premiums earned		\$7,298,519
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Deductions:

Losses incurred	\$4,573,430	
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Loss adjustment expenses incurred	503,018	
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Other underwriting expenses incurred	<u>2,102,605</u>	
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Total underwriting deductions		<u>7,179,053</u>
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Net underwriting gain (loss)		119,466
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Investment Income

Net investment income earned	169,289	
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Net realized capital gains (losses)	<u>(59,526)</u>	
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Net investment gain (loss)		<u>109,763</u>
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Net Income		<u>\$ 229,229</u>
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**Municipal Property Insurance Company
Cash Flow
For the Year 2017**

Premiums collected net of reinsurance		\$7,931,474
Net investment income		<u>163,752</u>
Total		8,095,226
Benefit- and loss-related payments	\$ 5,270,609	
Commissions, expenses paid, and aggregate write-ins for deductions	<u>3,050,510</u>	
Total deductions		<u>8,321,119</u>
Net cash from operations		(225,893)
Proceeds from investments sold, matured, or repaid:		
Bonds	\$12,556,918	
Cost of investments acquired (long-term only):		
Bonds	<u>12,843,594</u>	
Net cash from investments		(286,677)
Reconciliation:		
Net Change in Cash, Cash Equivalents, and Short-Term Investments		(512,570)
Cash, cash equivalents, and short-term investments:		
Beginning of year		<u>2,431,930</u>
End of Year		<u>\$1,919,360</u>

**Municipal Property Insurance Company
Compulsory and Security Surplus Calculation
December 31, 2017**

Assets		\$14,238,767
Less liabilities		<u>5,445,765</u>
Adjusted surplus		\$ 8,793,002
Annual premium:		
Lines other than accident and health	\$6,840,383	
Factor	<u>20%</u>	
Compulsory surplus (subject to a minimum of \$2 million)		<u>2,000,000</u>
Compulsory Surplus Excess (Deficit)		<u>\$ 6,793,002</u>
Adjusted surplus (from above)		\$ 8,793,002
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>\$ 5,993,002</u>

**Municipal Property Insurance Company
Analysis of Surplus
For the Three-Year Period Ending December 31, 2017**

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

	2017	2016	2015
Surplus, beginning of year	\$8,567,286	\$8,285,461	\$
Net income	229,229	310,767	(714,539)
Change in net unrealized capital gains/losses	9,733		
Change in nonadmitted assets	(13,246)	(28,942)	
Transferred to surplus	(8,999,910)		
Surplus adjustments:			
Paid in			9,000,000
Transferred from capital	<u>8,999,910</u>	<u> </u>	<u> </u>
Surplus, End of Year	<u>\$8,793,002</u>	<u>\$8,567,286</u>	<u>\$8,285,461</u>

**Insurance Regulatory Information System
For the Three-Year Period Ending December 31, 2017**

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

Ratio	2017	2016	2015
#1 Gross Premium to Surplus	116%	118%	24%
#2 Net Premium to Surplus	78	82	23
#3 Change in Net Premiums Written	-3	275*	999*
#4 Surplus Aid to Surplus	0	0	0
#5 Two-Year Overall Operating Ratio	95	95	137*
#6 Investment Yield	1.3*	0.7*	0.2*
#7 Gross Change in Surplus	3	3	999*
#8 Change in Adjusted Surplus	3	3	999*
#9 Liabilities to Liquid Assets	41	40	26
#10 Agents' Balances to Surplus	4	5	3
#11 One-Year Reserve Development to Surplus	-9	-1	0
#12 Two-Year Reserve Development to Surplus	-1	0	0
#13 Estimated Current Reserve Deficiency to Surplus	0	0	0

Ratio No. 3 measures the percentage change in net premiums written from the prior year. The exceptional results in 2016 and 2015 reflected an increase in premium after the

formation of the company in 2015. Ratios No. 7 and No. 8 also showed exceptional results in 2015 reflecting the funding of the company.

Ratio No. 6 measures the company's return on invested assets. The company reported an exceptional ratio each year under examination. The exceptional results were due to a low-interest rate environment.

Growth of Municipal Property Insurance Company

Year	Admitted Assets	Liabilities	Surplus as Regards Policyholders	Net Income
2017	\$14,238,767	\$5,445,765	\$8,793,002	\$229,229
2016	13,954,109	5,386,823	8,567,286	310,767
2015	11,055,668	2,770,207	8,285,461	(714,539)

Year	Direct Premium Written	Net Premium Written	Premium Earned	Loss and LAE Ratio	Expense Ratio	Combined Ratio
2017	\$10,238,927	\$6,840,383	\$7,298,519	69.6%	30.7%	100.3%
2016	10,111,969	7,058,069	6,039,528	66.5	26.6	93.1
2015	2,027,366	1,883,950	268,553	103.0	37.2	140.3

The company was formed in 2015 to provide property coverage to Wisconsin municipalities. It started issuing policies on September 1, 2015, and 2017 was the second full year of operations. Direct premium written has increased from \$2 million in 2015 to \$10.2 million in 2017, and the company reported a net income in both 2016 and 2017. A net loss reported in 2015 was mainly due to the expenses associated with a newly formed company. After a decrease in 2015, surplus almost regained its initial value after the company reported a net income in both 2016 and 2017.

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, 2017, is accepted.

VII. SUMMARY OF EXAMINATION RESULTS

Compliance with Prior Examination Report Recommendations

This is the first examination report of the company.

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 Financial Condition Examiners Handbook. The review of the custodial agreement with Bank of Kansas City (BOKF) revealed that the agreement does not include all of the suggested provisions as contained in the NAIC Financial Condition Examiners Handbook to ensure proper controls and safeguards. Specifically, the agreement does not include a requirement to keep securities of the company separately, by either holding certificated securities separate from all other securities or identifying securities indirectly held by the custodian as being owned by the company on the custodian's official records. It is recommended that the company amend its custodial agreement to include the guideline provisions contained in the NAIC Financial Condition Examiners Handbook.

Reinsurance Intermediary-Broker Agreement

The company obtains reinsurance coverage through its reinsurance broker. A review of the reinsurance intermediary-broker agreement revealed that the agreement lacks certain provisions required by s. Ins 47.03, Wis. Adm. Code. Specifically, the agreement did not contain a provision requiring the reinsurance intermediary-broker to keep a complete record for at least 10 years after expiration of each contract of reinsurance transacted by the reinsurance intermediary-broker. It is recommended that the company update its reinsurance intermediary-broker agreement to comply with the requirements of s. Ins. 47.03, Wis. Adm. Code.

VIII. CONCLUSION

Municipal Property Insurance Company was formed as a stock insurance company and started operations in 2015. It is equally owned by three municipal mutual insurance companies domiciled in Wisconsin. MPIC was formed to provide property coverage to municipalities in Wisconsin. It initially offered insurance coverage to the members of the three stockholders but has expanded its target market to include municipalities in Wisconsin that are not members of its three stockholders. As of December 31, 2017, it reported admitted assets of \$14,238,767, liabilities of \$5,445,765, and policyholders' surplus of \$8,793,002.

During the examination period, the company's admitted assets, liabilities, and surplus increased by 2.0%, 1.1%, and 2.6%, respectively. MPIC reported a net income of \$310,767 as of December 31, 2016, and \$229,229 as of December 31, 2017.

The examination resulted in two recommendations. There were no adjustments to surplus and no reclassifications of account balances.

IX. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 18 - Custodial Agreement—It is recommended that the company amend its custodial agreement to include the guideline provisions contained in the NAIC Financial Condition Examiners Handbook.
2. Page 18 - Reinsurance Intermediary-Broker Agreement—It is recommended that the company update its reinsurance intermediary-broker agreement to comply with the requirements of s. Ins. 47.03, 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
Dana Tice	Insurance Financial Examiner
Ana Careaga	ACL Specialist
David Jensen, CFE	IT Specialist
Jerry DeArmond, CFE	Reserve Specialist

Respectfully submitted,

Yi Xu
Examiner-in-Charge