

Report of the Examination of
Municipal Property Insurance Company
Middleton, Wisconsin
As of December 31, 2022

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March 4, 2024

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:

MUNICIPAL PROPERTY INSURANCE COMPANY
Middleton, Wisconsin

and this report is respectfully submitted.

I. INTRODUCTION

The previous examination of Municipal Property Insurance Company (MPIC or the company) was conducted in 2019 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 document system controls and procedures used to mitigate those risks. The approach was modified to focus on 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 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

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 2022, the company wrote premium only in Wisconsin with a total direct premium of \$20 million. The major products marketed by the company include allied lines, fire, inland marine, boiler and machinery, and auto physical damage. 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 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	\$ 5,577,058	\$	\$2,095,938	\$ 3,481,120
Allied lines	11,154,116		4,191,876	6,962,240
Inland marine	1,859,019		698,646	1,160,373
Commercial auto physical damage	39,299			39,299
Boiler and machinery	<u>1,345,935</u>		<u>627,912</u>	<u>718,023</u>
Total All Lines	<u>\$19,975,427</u>	<u>\$</u>	<u>\$7,614,372</u>	<u>\$12,361,055</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, 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.

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

Name	Principal Occupation	Term Expires
Gerard Deschane Stoughton, Wisconsin	Executive Director of LWMMI	2024
Steve Stanczak Kenosha, Wisconsin	Chief Executive Officer of CVMIC	2024
Eric Veum Sun Prairie, Wisconsin	Risk Manager for City of Madison	2024
Pallin Allen Hartland, Wisconsin	Executive Director of WMMIC	2025
Matthew Becker Bristol, Wisconsin	Chief Executive Officer of LWMMI	2025
Robert Scott Brookfield, Wisconsin	Director of Finance and Administration with City of Brookfield	2025
Blair Rogacki Colgate, Wisconsin	Chief Executive Officer of MPIC	Automatic One-Year Term

Officers of the Company

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

Name	Office
Pallin Allen	Secretary
Matthew Becker	President
Blair Rogacki	Chief Executive Officer
Robert Scott	Treasurer

Committees of the Board

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

The sole committee at the time of the examination is the Executive Committee.

Executive Committee

Matthew Becker, Chair

Pallin Allen

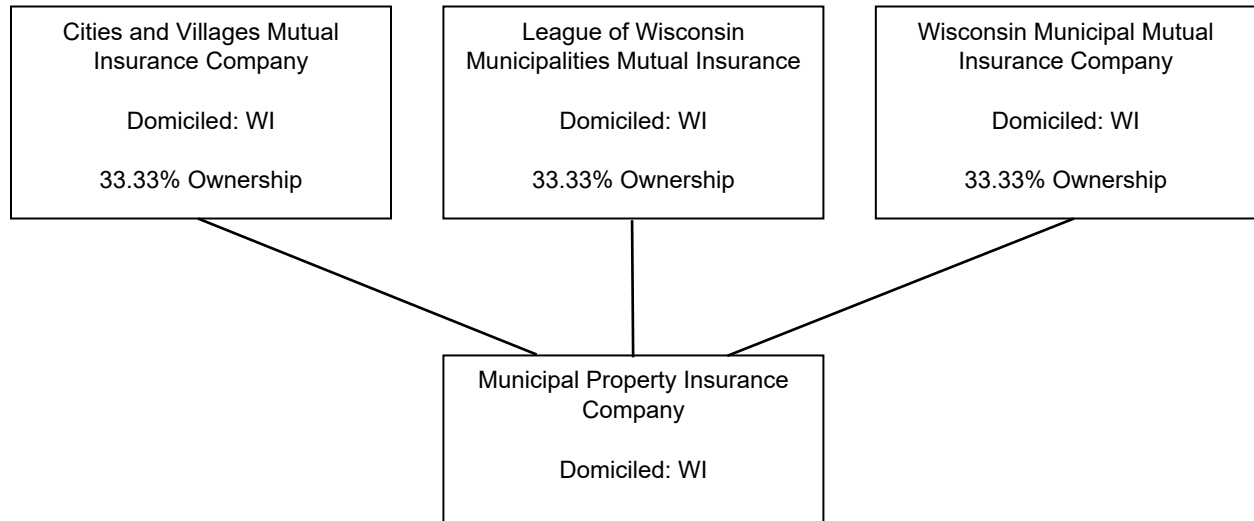
Blair Rogacki

Steve Stanczak

IV. AFFILIATED COMPANIES

Municipal Property Insurance Company is a member of a holding company system. 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, 2022**



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 worker's 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, 2022, the audited financial statements of LWMMI reported assets of \$85,987,627, liabilities of \$35,964,888, and policyholders' surplus of \$50,022,739. Operations for 2022 produced a net income of \$473,905.

Cities & Villages Mutual Insurance Company

CVMIC was formed in 1987 by 20 municipalities to provide liability insurance for municipal operations. CVMIC was created to provide 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, worker's compensation, commercial auto liability, and auto physical damage coverage.

As of December 31, 2022, the audited financial statements of CVMIC reported assets of \$52,945,180, liabilities of \$21,324,002, and policyholders' surplus of \$31,621,178. Operations for 2022 produced a net income of \$210,099.

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, and public official's errors and omission liability coverage to its members.

As of December 31, 2022, the audited financial statements of WMMIC reported assets of \$53,222,942, liabilities of \$20,003,477, and policyholders' surplus of \$33,219,465. Operations for 2022 produced a net income of \$321,719.

V. REINSURANCE

The company's reinsurance portfolio and strategy at the time of the examination are described below. The contracts contained proper insolvency provisions.

MPIC utilizes excess of loss reinsurance agreements to limit the company's maximum exposure. The company has excess of loss treaty reinsurance contracts that provide \$500 million in coverage and include catastrophe coverage; all contracts were effective September 1, 2023. The excess of loss reinsurance program can be broken into four layers, with each layer being 100% placed. The company retains the first \$1 million per occurrence with no occurrence limits. The first layer consists of \$25 million of coverage. The second layer provides \$75 million of coverage excess of \$25 million. The third layer consists of \$150 million of coverage excess of \$100 million. The final layer provides \$250 million of coverage over \$250 million.

In addition, the company entered into a terrorism and sabotage reinsurance agreement with various reinsurers of Lloyd's London effective September 1, 2023. The contract is 100% placed. The company retains the first \$25,000 per occurrence and the contract provides \$100 million in coverage per occurrence with an annual aggregate limit of \$100 million.

MPIC also entered into a quota share reinsurance agreement effective September 1, 2023, where it cedes 100% of its equipment breakdown business to Continental Casualty Company, a subsidiary of CNA Financial.

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, 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.

Municipal Property Insurance Company
Assets
As of December 31, 2022

	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	\$22,640,148	\$	\$22,640,148
Stocks:			
Common stocks	102,000		102,000
Cash, cash equivalents, and short-term investments	2,935,338		2,935,338
Investment income due and accrued	143,768		143,768
Premiums and considerations:			
Uncollected premiums and agents' balances in course of collection	280,686		280,686
Reinsurance:			
Amounts recoverable from reinsurers	357,329		357,329
Electronic data processing equipment and software	103,462	103,462	
Write-ins for other than invested assets:			
Prepaid Expenses	<u>70,609</u>	<u>70,609</u>	
Total Assets	<u>\$26,633,340</u>	<u>\$174,071</u>	<u>\$26,459,269</u>

**Municipal Property Insurance Company
Liabilities, Surplus, and Other Funds
As of December 31, 2022**

Losses		\$4,939,551
Loss adjustment expenses		392,353
Commissions payable, contingent commissions, and other similar charges		38,154
Other expenses (excluding taxes, licenses, and fees)		146,186
Taxes, licenses, and fees (excluding federal and foreign income taxes)		13,060
Borrowed money and interest thereon		5,108,788
Unearned premiums		3,660,027
Advance premium		865,864
Ceded reinsurance premiums payable (net of ceding commissions)		<u>(995,224)</u>
Total Liabilities		14,168,759
Common capital stock	\$ 90	
Gross paid in and contributed surplus	8,999,910	
Unassigned funds (surplus)	<u>3,290,510</u>	
Surplus as Regards Policyholders		<u>12,290,510</u>
Total Liabilities and Surplus		<u>\$26,459,269</u>

**Municipal Property Insurance Company
Summary of Operations
For the Year 2022**

Underwriting Income		
Premiums earned		\$12,103,963
Deductions:		
Losses incurred	\$9,685,208	
Loss adjustment expenses incurred	535,500	
Other underwriting expenses incurred	<u>2,412,806</u>	
Total underwriting deductions		<u>12,633,514</u>
Net underwriting gain (loss)		(529,551)
Investment Income		
Net investment income earned	312,301	
Net realized capital gains (losses)	<u>(74,705)</u>	
Net investment gain (loss)		237,596
Net income (loss) before dividends to policyholders and before federal and foreign income taxes		<u>(291,955)</u>
Net income (loss) after dividends to policyholders but before federal and foreign income taxes		<u>(291,955)</u>
Net Income (Loss)		<u>\$ (291,955)</u>

Municipal Property Insurance Company
Cash Flow
For the Year 2022

Premiums collected net of reinsurance		\$13,306,808
Net investment income		<u>408,868</u>
Total		13,715,676
Benefit- and loss-related payments	\$9,459,647	
Commissions, expenses paid, and aggregate write-ins for deductions	<u>3,074,385</u>	
Total deductions		<u>12,534,032</u>
Net cash from operations		1,181,644
Proceeds from investments sold, matured, or repaid:		
Bonds	<u>\$4,936,686</u>	
Total investment proceeds		4,936,686
Cost of investments acquired (long- term only):		
Bonds	7,899,653	
Stocks	<u>42,000</u>	
Total investments acquired		<u>7,941,653</u>
Net cash from investments		(3,004,967)
Cash from financing and miscellaneous sources:		
Borrowed funds	<u>2,107,651</u>	
Net cash from financing and miscellaneous sources		<u>2,107,651</u>
Reconciliation:		
Net Change in Cash, Cash Equivalents, and Short-Term Investments		284,328
Cash, cash equivalents, and short-term investments:		
Beginning of year		<u>2,651,010</u>
End of Year		<u>\$2,935,338</u>

**Municipal Property Insurance Company
Compulsory and Security Surplus Calculation
December 31, 2022**

Assets		\$26,459,269
Less liabilities		<u>14,168,759</u>
Adjusted surplus		\$12,290,510
Annual premium:		
Lines other than accident and health	\$12,361,055	
Factor	<u>20%</u>	
Compulsory surplus (subject to a minimum of \$2 million)		<u>2,472,211</u>
Compulsory Surplus Excess (Deficit)		<u>\$ 9,818,299</u>
Adjusted surplus (from above)		\$12,290,510
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>3,461,095</u>
Security Surplus Excess (Deficit)		<u>\$ 8,829,415</u>

**Municipal Property 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	\$12,756,536	\$11,014,310	\$6,882,678	\$7,899,360	\$8,793,002
Net income	(291,955)	1,738,772	4,134,982	(1,014,229)	(954,646)
Change in net unrealized capital gains/losses				(2,453)	18,920
Change in nonadmitted assets	<u>(174,071)</u>	<u>3,454</u>	<u>(3,350)</u>	<u> </u>	<u>42,084</u>
Surplus, End of Year	<u>\$12,290,510</u>	<u>\$12,756,536</u>	<u>\$11,014,310</u>	<u>\$6,882,678</u>	<u>\$7,899,360</u>

Growth of Municipal Property Insurance Company

Year	Admitted Assets	Liabilities	Surplus as Regards Policyholders	Net Income
2022	\$26,459,269	\$14,168,759	\$12,290,510	\$ (291,955)
2021	23,246,048	10,489,512	12,756,536	1,738,772
2020	18,908,507	7,894,197	11,014,310	4,134,982
2019	15,523,188	8,640,510	6,882,678	(1,014,299)
2018	12,293,271	4,393,911	7,899,360	(954,646)
2017	14,238,767	5,445,765	8,793,002	229,229

Year	Gross Premium Written	Net Premium Written	Premium Earned	Loss and LAE Ratio	Expense Ratio	Combined Ratio
2022	\$19,975,427	\$12,361,055	\$12,103,963	84.4%	19.5%	103.9%
2021	17,631,929	10,962,997	10,680,177	67.1	19.4	86.5
2020	15,586,296	9,504,798	9,121,802	33.2	23.5	56.7
2019	13,388,147	8,492,671	8,048,621	88.7	26.2	114.9
2018	11,601,406	7,649,277	7,532,010	88.5	25.3	113.8
2017	10,238,927	6,840,383	7,298,519	69.6	30.7	100.3

The five-year history shows a company that experienced high losses in 2018 and 2019; however, the most recent three years show a much stronger performance. This is demonstrated by the

reported combined ratios over 100% in the down years and combined ratios of 86.5% and 56.7% during 2021 and 2020. The 2022 combined ratio of 104% was slightly over 100%. The reported policyholders' surplus values reflect the combined ratio trend with year-over-year declines in surplus in 2018 and 2019 resulting in a surplus low of \$6.9 million. The improved performance of the following three years resulted in surplus climbing significantly in 2020 to \$11.0 million and then to \$12.8 million in 2021 before declining 3.7% to \$12.3 million in 2022. Gross premium written increased 95.1% over the examination period from \$10.2 million in 2017 to \$20.0 million in 2022. Net premium written also increased 80.7% over the examination period from \$6.8 million in 2017 to \$12.4 million in 2022. While loss ratio performance has varied over the exam period, the expense ratio has shown an overall decreasing trend with the 2017 expense ratio of 30.7% decreasing to a ratio of 19.5% at year-end 2022. Overall, despite high catastrophe activity and inflationary pressures, the company has reported improved results in recent years. These improvements can be attributed to the company's increased focus on rate adequacy through the implementation of inflation guards and routine property assessments.

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.

VII. SUMMARY OF EXAMINATION RESULTS

Compliance with Prior Examination Report Recommendations

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

1. 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.

Action—Compliance.

2. 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.

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

Municipal Property Insurance Company was formed as a stock insurance company and commenced operations in 2015. The company is equally owned by three municipal mutual insurance companies domiciled in Wisconsin. MPIC was formed to provide property insurance coverage to the members of the three stockholders; however, the company's target market has expanded to include Wisconsin municipalities that are not members of the three stockholders as well as government-associated and quasi-governmental entities. During the period under examination, the company's admitted assets increased by 85.8%, liabilities increased by 160.2%, and policyholders' surplus increased by 39.8%. As of December 31, 2022, MPIC reported admitted assets of \$26,459,269, liabilities of \$14,168,759, and policyholders' surplus of \$12,290,510.

The company experienced high losses in 2018 and 2019 that resulted in declines in policyholders' surplus with the lowest year-end policyholders' surplus for the period of examination of \$6,882,678 being reported in 2019. Despite high catastrophe activity and inflationary pressures, results improved in the subsequent years with year-over-year increases in surplus reported in 2020 and 2021 and a minor decrease in surplus reported in 2022. These improvements can be attributed to the company's increased focus on rate adequacy through actions such as the implementation of inflation guards and routine property assessments.

The company complied with the two recommendations of the prior examination report. The current examination resulted in no recommendations, no adjustments to policyholders' surplus, and no reclassifications to the balance sheet.

IX. SUMMARY OF COMMENTS AND RECOMMENDATIONS

There were no recommendations made as a result of this examination.

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
Pierce Varney	Insurance Financial Examiner
Kenton Harrison	Insurance Financial Examiner
Junji Nartatez, CISA	IT Specialist
Nicholas Hartwig, AFE	Quality Control Specialist
Jerry DeArmond, CFE	Reserve Specialist

Respectfully submitted,



Pierce Varney
Examiner-in-Charge