

Report
of the
Examination of
Wisconsin Lawyers Mutual Insurance Company
Madison, Wisconsin
As of December 31, 2017

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State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

Scott Walker, Governor
Theodore K. Nickel, Commissioner

Wisconsin.gov

August 17, 2018

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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:

WISCONSIN LAWYERS MUTUAL INSURANCE COMPANY
Madison, Wisconsin

and this report is respectfully submitted.

I. INTRODUCTION

The previous examination of Wisconsin Lawyers Mutual Insurance Company (hereinafter also WILMIC or the company) was conducted in 2013 as of December 31, 2012. The current examination covered the intervening period ending December 31, 2017, and included a review of such 2018 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 financial condition, either currently or prospectively), and evaluate system controls and procedures used to mitigate those risks. This 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. 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

The company was organized in 1986 under Chapter 611 of the Wisconsin Statutes. Wisconsin Lawyers Mutual Insurance Company is a non-assessable mutual insurer that writes professional liability insurance in the state of Wisconsin.

Wisconsin Lawyers Mutual Insurance was organized by Wisconsin attorneys in response to the increasing cost and lack of availability of professional liability insurance. The company was initially capitalized by the proceeds from the issuance of subordinated surplus debentures (mutual bonds) pursuant to s. 611.33, Wis. Stat. Additional mutual bonds were issued in 1993 with the consent of the Commissioner of Insurance. On March 12, 2003, the Commissioner of Insurance granted the company approval to redeem the remaining mutual bonds under s. 611.33, Wis. Stat.

The company is licensed and writes premium only in Wisconsin. In 2017, direct premium written totaled \$5,188,806. The major product marketed by the company is claims-made liability policies, with a maximum policy limit of \$10 million. WILMIC may issue policies in excess of the limit under a facultative reinsurance arrangement, whereby the reinsurer does the underwriting and pricing. WILMIC also has issued a small number of endorsements extending the claims reporting period. Usually, the extended reporting period endorsements are issued to lawyers who have discontinued practicing law and desire continued coverage for the years in which they were actually practicing. The products are marketed through four licensed agents who are company employees.

The company's primary market is law firms of six or fewer lawyers. Small firms and sole practitioners, which typically present a lower severity exposure, continue to be the focus of the company's marketing efforts. Once a small firm or a new attorney becomes a policyholder, they typically remain a policyholder (93% retention rate) for the length of their career. Marketing materials are mailed or emailed to prospective policyholders. The company also utilizes other channels of distribution, such as paper and online ads, social media, direct mail, print and electronic publications, conventions, and conferences. Additionally, the company maintains strong contacts with the two law schools in Wisconsin.

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
Other liability— occurrence	\$ 199,051	\$0	\$ 48,159	\$ 150,892
Other liability—claims made	<u>4,989,755</u>	<u>0</u>	<u>1,204,796</u>	<u>3,784,959</u>
Total All Lines	<u>\$5,188,806</u>	<u>\$0</u>	<u>\$1,252,955</u>	<u>\$3,935,851</u>

III. MANAGEMENT AND CONTROL

Board of Directors

The board of directors has fourteen members and one non-voting liaison (there is currently one vacant position). The board is comprised of twelve elected directors who hold three-year terms with a limit of four terms, one director who was appointed to the board in 2009 and who will serve until 2023, and the president of Wisconsin Lawyers Mutual Insurance Company, who will have the right to serve as long as she holds office. Directors and officers are elected at the board's annual meeting. Board members currently receive the following compensation for attendance at board meetings: \$1,100 for in-person attendance, \$825 for visual electronic attendance, and \$550 for voice only electronic attendance.

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

Name and Residence	Principal Occupation	Term Expires
George C. Brown Madison, Wisconsin	Retired Executive Director, State Bar of Wisconsin	2023
John S. Bubolz Appleton, Wisconsin	Retired Attorney	2021
John E. Danner Minocqua, Wisconsin	Attorney	2019
Linda C. de la Mora Hartland, Wisconsin	Attorney	2020
John P. Miller Milwaukee, Wisconsin	Attorney	2019
William J. Mulligan* Milwaukee, Wisconsin	Attorney	2021
Kevin J. Palmersheim Madison, Wisconsin	Attorney	2019
Noreen J. Parrett Madison, Wisconsin	Attorney	2020
Richard T. Orton Milwaukee, Wisconsin	Attorney	2020
Anne E. Ross Madison, Wisconsin	Attorney	2021
Thomas R. Schumacher Baldwin, Wisconsin	Attorney	2019

Thomas S. Sleik La Crosse, Wisconsin	Attorney	2021
Marna Tess-Mattner Brookfield, Wisconsin	Attorney	2020
Katja Kunzke Madison Wisconsin	President/CEO/Director	None. Ex-officio member

* William J. Mulligan passed away on May 1, 2018.

Young Lawyers Division Liaison

Kasey Grams Osseo, Wisconsin	Attorney	2019
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Officers of the Company

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

Name	Office	2017 Compensation
Katja Kunzke	President & Chief Executive Officer	\$299,248
Patricia A. Lehner	Treasurer & Controller	204,467
Thomas J. Watson	Senior Vice President, Secretary	197,509
Joseph A. McCarthy	Vice President of Claims & Underwriting	169,540

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:

Audit Committee

Marna Tess-Mattner, Chair
George C. Brown
Richard T. Orton
Tom S. Sleik

Executive Committee

Tom R Schumacher, Chair
Linda C. de la Mora
Katja Kunzke
Kevin J. Palmersheim
William J. Mulligan*

Investment Committee

John S. Bubolz, Chair
Linda C. de la Mora
Katja Kunzke
John P. Miller
Kevin J. Palmersheim
John E. Danner

Governance Committee

Kevin J. Palmersheim, Chair
Noreen J. Parrett
Tom R. Schumacher
Marna Tess-Mattner
George C. Brown

CEO Compensation Committee

Linda C. de la Mora, Chair
William J. Mulligan*
Tom R. Schumacher

Long Range Planning Committee

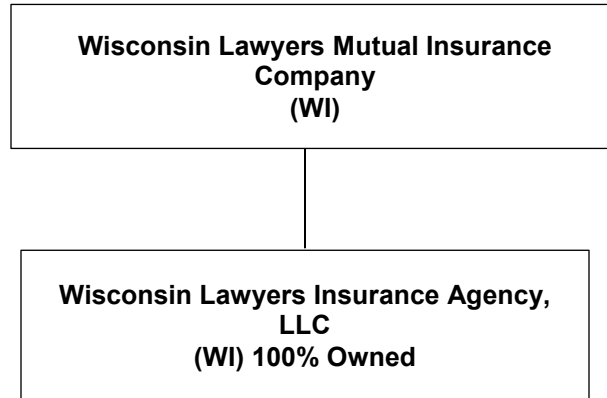
Marna Tess-Mattner, Chair
Katja Kunzke
Richard T. Orton
Tom R. Schumacher
George C. Brown

* William J. Mulligan passed away on May 1, 2018.

V. AFFILIATED COMPANIES

Wisconsin Lawyers Mutual Insurance Company is the ultimate parent 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, 2017



Wisconsin Lawyers Insurance Agency, LLC

Wisconsin Lawyers Mutual Insurance Company formed Wisconsin Lawyers Insurance Agency (the agency, formerly known as Wisconsin Lawyers Bond Agency, LLC) in 2010. The agency is a single member Wisconsin Limited Liability company, whose purpose is to market court bonds sold by The Bar Plan of Missouri. As of December 31, 2017, this investment was valued at \$19,256, which represents the agency's equity. This amount is nonadmitted because Wisconsin Lawyers Insurance Agency, LLC, is not audited.

V. REINSURANCE

The company's reinsurance portfolio and strategy is described below. A list follows of the companies with a significant amount of reinsurance in force at the time of the examination. The contracts contained proper insolvency provisions.

Nonaffiliated Ceding Contracts

1. Type: Excess of Loss

Reinsurer:	Hannover Rückversicherung AG	20.0%
	Transatlantic Reinsurance Co.	20.0%
	Lloyd's Underwriters and Companies	35.0%
	Aspen Insurance UK Ltd.	5.0%

Scope: Lawyers professional liability claims including loss adjustment expenses (LAE)

Retention: \$200,000 each insured each claim

Coverage: \$800,000 each insured each claim in excess of company retention plus their proportionate share of any applicable loss adjustment expense

Premium: \$587,910 deposit premium, paid in equal quarterly installments in advance and adjusted against the provisional premium

Effective date: October 1, 2017

Termination: October 1, 2018
2. Type: Excess of loss

Reinsured:	Hannover Rückversicherung AG	20.0%
	Transatlantic Reinsurance Co.	7.5%
	Lloyd's Underwriters and Companies	68.0%
	Aspen Insurance UK Ltd.	4.5%

Scope: Lawyers professional liability claims including loss adjustment expenses (LAE)

Retention: \$1,000,000 each insured each claim

Coverage: \$4,000,000 each insured each claim in excess of company retention plus their proportionate share of any applicable loss adjustment expense, and 90% of the portion of any extra contractual obligations and/or excess limits liability arising from the same claim up to an additional \$4,000,000 each insured each claim after recovery has been exhausted

Premium: \$445,613 deposit premium paid in equal quarterly installments in advance, and adjusted against the actual premium charged by the company less the ceding commission, being the difference between \$1,000,000/\$2,000,000 and \$5,000,000/\$5,000,000 premium payable by each insured firm

Commissions:	The company will receive a flat ceding commission of 15% on premium ceded, which will include premium taxes.
Effective date:	October 1, 2017
Termination:	October 1, 2018
3. Type:	Excess Cessions
Reinsured:	Lloyd's underwriters and companies—100%
Scope:	Lawyers professional liability claims including loss adjustment expenses (LAE)
Retention:	Coverage A: \$5,000,000 each and every claim and in the aggregate, each policy covered Coverage B: \$10,000,000 each and every claim ad in the aggregate, each policy covered
Coverage:	Coverage A: \$5,000,000 each and every claim and in the aggregate, each policy covered, excess of the company's coverage A retention plus their proportionate share of any applicable loss adjustment expense; and \$5,000,000 additional of claims related extra contractual obligations and/or excess limits liability each claim each policy, and in aggregate each policy plus their proportionate share of any applicable loss adjustment expense; Option to increase the aggregate amount applicable to the retention and limit to \$10,000,000 for each policy covered Coverage B: \$10,000,000 each and every claim and in the aggregate, each policy covered, excess of the company's coverage B retention plus their proportionate share of any applicable loss adjustment expense; and \$10,000,000 additional of claims related extra contractual obligations and/or excess limits liability each claim each policy, and in aggregate each policy plus their proportionate share of any applicable loss adjustment expense; with Option to increase the aggregate amount applicable to the retention and limit to \$20,000,000 for each policy covered
Premium:	Coverage A: Covers 50 or fewer attorneys and not subject to referral criteria; the company will cede the following percentages of the written increased limits premium developed on policies written with loss limits greater than \$5,000,000

Cession Hereunder	% of Premium for the Underlying \$3,000,000 excess of \$2,000,000 Portion of Reinsured Policy
\$1,000,000/\$1,000,000	126%
\$2,000,000/\$2,000,000	155%
\$3,000,000/\$3,000,000	181%
\$4,000,000/\$4,000,000	217%
\$5,000,000/\$5,000,000	261%

Increased limits premium is premium charged to increase the loss limit of liability greater than \$5,000,000 up to \$10,000,000, less returned premium for cancellations, reductions, and inuring reinsurance

Policies with aggregate limits greater than the loss limits will result in the premium being increased by 20%

Policies covering 51 or more attorneys or subject to referral criteria; such policies must be submitted to the Faraday Syndicate #0435 for pricing

Coverage B: Premium will be determined by the Faraday Syndicate #0435 for each policy ceded under Coverage B

Commissions:

Coverage A: Flat ceding commission of 15% on premium ceded

Coverage B: Flat ceding commission of 10% on the premium ceded

Premium taxes will be included.

Effective date:

July 1, 2017

Termination:

July 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, 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.

Wisconsin Lawyers Mutual Insurance Company
Assets
As of December 31, 2017

	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	\$26,953,556	\$	\$26,953,556
Preferred stocks	304,676		304,676
Common stocks	5,037,605		5,037,605
Cash, cash equivalents, and short-term investments	1,500,464		1,500,464
Other invested assets	19,256	19,256	
Investment income due and accrued	212,293		212,293
Premiums and considerations:			
Uncollected premiums and agents' balances in course of collection	620,832		620,832
Reinsurance:			
Amounts recoverable from reinsurers	84,996		84,996
Current federal and foreign income tax recoverable and interest thereon	26,500		26,500
Electronic data processing equipment and software	3,764	2,048	1,716
Furniture and equipment, including health care delivery assets	6,836	6,836	
Write-ins for other than invested assets:	<u>89,078</u>	<u>75,958</u>	<u>13,120</u>
Total Assets	<u>\$34,859,856</u>	<u>\$104,098</u>	<u>\$34,755,758</u>

Wisconsin Lawyers Mutual Insurance Company
Liabilities, Surplus, and Other Funds
As of December 31, 2017

Losses		\$ 3,448,844
Loss adjustment expenses		2,944,560
Other expenses (excluding taxes, licenses, and fees)		154,468
Taxes, licenses, and fees (excluding federal and foreign income taxes)		17,000
Net deferred tax liability		140,000
Unearned premiums		1,694,465
Advance premium		234,008
Ceded reinsurance premiums payable (net of ceding commissions)		1,147,700
Amounts withheld or retained by company for account of others		496,140
Remittances and items not allocated		5,449
Provision for reinsurance		2,000
Payable for securities		<u>14,761</u>
Total Liabilities		10,299,395
Unassigned funds (surplus)	<u>\$24,456,363</u>	
Surplus as regards policyholders		<u>24,456,363</u>
Total Liabilities and Surplus		<u>\$34,755,758</u>

**Wisconsin Lawyers Mutual Insurance Company
Summary of Operations
For the Year 2017**

Underwriting Income		
Premiums earned		\$4,007,157
Losses incurred	\$ 669,414	
Loss adjustment expenses incurred	1,557,456	
Other underwriting expenses incurred	<u>1,763,540</u>	
Total underwriting deductions		<u>3,990,410</u>
Net underwriting gain (loss)		16,747
Investment Income		
Net investment income earned	477,703	
Net realized capital gains (losses)	<u>907,560</u>	
Net investment gain (loss)		1,385,263
Other Income		
Finance and service charges not included in premiums	50,133	
Write-ins for miscellaneous income:	<u>11,849</u>	
Total other income		<u>61,982</u>
Net income (loss) before dividends to policyholders and before federal and foreign income taxes		1,463,992
Dividends to policyholders		<u>512,207</u>
Net income (loss) after dividends to policyholders but before federal and foreign income taxes		951,785
Federal and foreign income taxes incurred		<u>40,770</u>
Net Income		<u>\$ 911,015</u>

Wisconsin Lawyers Mutual Insurance Company
Cash Flow
For the Year 2017

Premiums collected net of reinsurance		\$4,378,929
Net investment income		689,339
Miscellaneous income		<u>61,982</u>
Total		5,130,250
Benefit- and loss-related payments	\$ 488,526	
Commissions, expenses paid, and aggregate write-ins for deductions	3,336,682	
Dividends paid to policyholders	512,207	
Federal and foreign income taxes paid (recovered)	<u>646,000</u>	
Total deductions		<u>4,983,415</u>
Net cash from operations		
Proceeds from investments sold, matured, or repaid:		146,835
Bonds	\$ 9,410,200	
Stocks	1,332,542	
Miscellaneous proceeds	<u>1,825</u>	
Total investment proceeds	10,744,567	
Cost of investments acquired (long- term only):		
Bonds	10,162,916	
Stocks	444,365	
Miscellaneous applications	<u>48,808</u>	
Total investments acquired	<u>10,656,089</u>	
Net cash from investments		88,479
Cash from financing and miscellaneous sources:		
Other cash provided (applied)	<u>253,290</u>	
Net cash from financing and miscellaneous sources		<u>253,290</u>
Reconciliation:		
Net Change in Cash, Cash Equivalents, and Short-Term Investments		488,603
Cash, cash equivalents, and short-term investments:		
Beginning of year		<u>1,011,861</u>
End of Year		<u>\$1,500,464</u>

**Wisconsin Lawyers Mutual Insurance Company
Compulsory and Security Surplus Calculation
December 31, 2017**

Assets		\$34,755,758
Less adjustments*		432,547
Less liabilities		<u>10,299,395</u>
Adjusted surplus		24,023,816
Annual premium:		
Lines other than accident and health	\$3,423,644	
Factor	<u>20%</u>	
Compulsory surplus (subject to a minimum of \$2 million)		<u>2,000,000</u>
Compulsory Surplus Excess (Deficit)		<u>\$22,023,816</u>
Adjusted surplus (from above)		\$24,023,816
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>\$21,223,816</u>

*The company's investment portfolio exceeded the statutory limitations set forth in s. Ins 6.20 (8) (k), Wis. Adm. Code (foreign securities), and s. 620.23 (1), Wis. Stat. (non-investment grade bond limitation). In addition, the balances in excess of these limitations exceeded the limitation set forth in s. 620.22 (9), Wis. Stat. (the "basket clause"). The total amount in excess of the amount allowed under the basket clause was \$432,547.

Per s. 620.21, Wis. Stat.: "Assets may be counted toward satisfaction of the compulsory surplus requirement or security surplus standard only so far as they are invested in compliance with this chapter, and applicable rules promulgated by the commissioner." Accordingly, assets were reduced by \$432,547 for purposes of calculating compliance with the compulsory surplus requirement and security surplus standard. [See the "Summary of Current Examination Results" section of this report for further details.]

**Wisconsin Lawyers Mutual Insurance Company
Analysis of Surplus
For the Five-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	2014	2013
Surplus, beginning of year	\$23,111,567	\$22,015,105	\$21,642,906	\$21,297,357	\$20,865,038
Net income,	911,015	740,428	554,712	227,451	80,205
Change in net unrealized capital gains/losses	476,608	269,775	(193,310)	197,022	411,632
Change in nonadmitted assets	125,320	112,584	96,381	(121,121)	(151,190)
Change in net deferred income tax	<u>(168,147)</u>	<u>(26,325)</u>	<u>(85,584)</u>	<u>42,197</u>	<u>91,672</u>
Surplus, End of Year	<u>\$24,456,363</u>	<u>\$23,111,567</u>	<u>\$22,015,105</u>	<u>\$21,642,906</u>	<u>\$21,297,357</u>

**Wisconsin Lawyers Mutual Insurance Company
Insurance Regulatory Information System
For the Five-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	2014	2013
#1 Gross Premium to Surplus	21%	23%	24%	23%	23%
#2 Net Premium to Surplus	16	17	17	17	16
#3 Change in Net Premiums Written	1	3	3	6	3
#4 Surplus Aid to Surplus	0	0	0	0	0
#5 Two-Year Overall Operating Ratio	94	93	103*	117*	122*
#6 Investment Yield	1.5*	1.5*	1.3*	1.2*	1.2*
#7 Gross Change in Surplus	6	5	2	2	2
#8 Change in Adjusted Surplus	6	5	2	2	2
#9 Liabilities to Liquid Assets	28	28	29	29	31
#10 Agents' Balances to Surplus	0	0	0	0	0
#11 One-Year Reserve Development to Surplus	(6)	(4)	(3)	(2)	(1)
#12 Two-Year Reserve Development to Surplus	(9)	(7)	(3)	(1)	(2)
#13 Estimated Current Reserve Deficiency to Surplus	(6)	(2)	0	(2)	(8)

Ratio No. 5 measures the company's profitability over the previous two-year period.

The unusual results for 2013–2015 were due to an increase in claims frequency, which resulted

in substantial reserve increases, as well as low investment income earned during that period (due to low interest rates).

Ratio No. 6 measures the average return on the company's investments. The exceptional ratio results were mainly due to the change in the interest rate environment in the recent years, as well as the company's convertible bond portfolio. The portfolio tends to yield a lower interest rate, due to the expectations that the equity components will increase in value.

Growth of Wisconsin Lawyers Mutual Insurance Company

Year	Admitted Assets	Liabilities	Surplus as Regards Policyholders	Net Income
2017	\$34,755,758	\$10,299,395	\$24,456,363	\$911,015
2016	32,887,172	9,775,604	23,111,567	740,428
2015	31,719,470	9,704,365	22,015,105	554,712
2014	31,218,495	9,575,589	21,642,906	227,451
2013	31,572,360	10,275,003	21,297,357	80,205
2012	30,489,545	9,624,507	20,865,038	278,173

Year	Gross Premium Written	Net Premium Written	Premium Earned	Loss and LAE Ratio	Expense Ratio	Combined Ratio*
2017	\$5,188,806	\$3,935,851	\$4,007,157	55.6%	43.2%	98.8%
2016	5,328,049	3,888,843	3,877,597	58.7	34.5	93.2
2015	5,316,365	3,779,305	3,696,278	65.3	36.0	101.3
2014	5,043,777	3,655,796	3,624,210	79.5	30.9	110.4
2013	4,931,161	3,434,355	3,406,908	100.8	30.0	130.8
2012	4,796,885	3,339,574	3,361,204	87.7	30.5	118.2

*The Combined Ratio does not include policyholder dividends, which averaged 9.2% of premium earned over the 6-year period.

In the last five years, the company's surplus has steadily increased. The company has also consistently paid a dividend to policyholders (regardless of the operating results). During the period under review, the surplus increased by 17% from \$20.8 million in 2012 to \$24.4 million in 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.

Examination Reclassifications

No reclassifications were made as a result of the examinations.

VII. SUMMARY OF EXAMINATION RESULTS

Compliance with Prior Examination Report Recommendations

There were two 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. Executive Compensation—It is recommended that the company report all remuneration to executives, which includes deferred compensation and other retirement compensation plans sponsored by the company, for those executives whose remuneration meets the requirements to be reported to the Commissioner of Insurance in accordance with s. 611.63 (4), Wis. Stat.

Action—Compliance.

2. Invested Assets—It is recommended that the custodial/safekeeping agreement entered into include the requirements as established by the NAIC Financial Condition Examiners Handbook, which include:
 - a) In the event of a loss of the securities for which the custodian is obligated to indemnify the insurance company, the securities shall be promptly 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.
 - b) The custodian shall not be liable for any failure to take any action required to be taken hereunder in the event and to the extent that the taking of such action is prevented or delayed by war (whether declared or not and including existing wars), revolution, insurrection, riot, civil commotion, act of God, accident, fire, explosions, stoppage of labor, strikes or other differences with employees, laws, regulations, orders or other acts of any governmental authority, or any other cause whatever beyond its reasonable control.
 - c) If the custodial 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.
 - d) The custodian shall secure and maintain insurance protection in an adequate amount.

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.

Committee Charter and Bylaws

The examination's review of the company's board and committee minutes indicated that the company was not fully compliant with its bylaws and committee charters. For example, the company's Corporate Governance Committee charter states the committee is to meet at least four times a year. The examination found that the committee formally met only twice in 2016 and once in 2017.

The bylaw also indicates that at least 60 days prior to the Annual meeting of the members, candidates for director or officer shall be nominated. The examination found that the candidate nominations took place less than 60 days prior to the Annual meeting of the members for the years 2014 through 2017.

In addition, the Audit Committee charter states the committee is to meet jointly and/or separately with the management of the company and the audit firm before the commencement of the annual audit, and is to meet jointly and/or separately with the management of the company and the audit firm at the conclusion of the audit. The examination found that the Audit Committee was meeting only at the conclusion, and all years excluding subsequent to the examination period, the Audit Committee was not meeting before the commencement of the annual audit.

It is recommended that the company comply with its bylaws and committee charters in regards to the frequency and interval with which board and committee meetings take place.

Investment Limitations

Section Ins 6.20 (8) (k), Wis. Adm. Code (foreign securities limitation) states insurers may invest in loans, securities, or investments in countries other than the United States or Canada up to, but not exceeding, 2% of assets. In addition, s. 620.23 (1), Wis. Stat. (non-investment grade bond limitation) allows property and casualty insurers to invest in class 3–6 bonds up to, but not exceeding, 5% of assets. For investments that exceed the prescribed investment limitations, s. 620.22 (9), Wis. Stat. (commonly known as the "basket clause") allows

insurers to invest an additional 5% of the first \$500 million of assets in investments not otherwise permitted and not specifically prohibited by statute. The effect of these limitations is set forth in s. 620.21, Wis. Stat., which states: “Assets may be counted toward satisfaction of the compulsory surplus requirement or security surplus standard only so far as they are invested in compliance with this chapter and applicable rules promulgated by the commissioner.”

Examination testing revealed that the company exceeded the investment limitations for below investment grade bonds (NAIC Class 3–6) by \$714,867 and foreign investments (excluding Canada) by \$1,455,468. The aggregate amount of investments that exceeded the investment limitations was \$2,170,335, which exceeded the 5% of admitted assets allowed under the basket clause (\$1,737,788) by \$432,547.

It is recommended that the company implement procedures to ensure that its invested assets comply with the limits set forth in s. Ins 6.20 (8) (k), Wis. Adm. Code, s. 620.23 (1), Wis. Stat., and s. 620.22 (9), Wis. Stat. If at any time the company’s invested assets exceed these limitations, the company shall adjust its compulsory and security surplus calculation accordingly, in accordance with s. 620.21, Wis. Stat.

VIII. CONCLUSION

Wisconsin Lawyers Mutual Insurance Company is a non-assessable mutual insurer that writes professional liability insurance in the state of Wisconsin. The company was organized by Wisconsin attorneys in response to concerns over the increasing cost and lack of availability of professional liability insurance during the mid-1980's liability insurance crisis. The company is comprised of 11 employees. The company's mission is to provide Wisconsin attorneys with a viable and affordable professional liability insurance option.

As of December 31, 2017, the company reported assets of \$34,755,758, liabilities of \$10,299,395, and policyholder surplus of \$24,456,363. Operations for 2017 produced a net income of \$911,015. The company consistently posted profitable operations over the examination period. Policyholder surplus has increased from \$21,297,357 as of December 31, 2012, to \$24,456,363 as of year-end 2017.

The current examination resulted in two recommendations and no adjustments to surplus.

IX. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 21 - Committee Charter and Bylaws—It is recommended that the company comply with its Governance Committee charter and bylaws in regards to the frequency and intervals with which board and committee meetings take place.
2. Page 21 - Investment Limitations—It is recommended that the company implement procedures to ensure that its invested assets comply with the limits set forth in s. Ins 6.20 (8) (k), Wis. Adm. Code, s. 620.23 (1), Wis. Stat., and s. 620.22 (9), Wis. Stat. If at any time the company's invested assets exceed these limitations, the company shall adjust its compulsory and security surplus calculation accordingly, in accordance with s. 620.21, Wis. Stat.

X. ACKNOWLEDGMENT

The courtesy and cooperation extended during the course of the examination by the officers and employees of the Wisconsin Lawyers Mutual Insurance 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
Greg Meilke	Insurance Financial Examiner
Levi Olson	ACL Specialist
Eleanor Lu	IT Specialist
Jerry DeArmond	Reserve Specialist

Respectfully submitted,

Sheng Vang
Examiner-in-Charge