

Report of the Examination of
Wisconsin Municipal Mutual Insurance Company
Madison, Wisconsin
As of December 31, 2022

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March 27, 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:

WISCONSIN MUNICIPAL MUTUAL INSURANCE COMPANY
Madison, Wisconsin

and this report is respectfully submitted.

I. INTRODUCTION

The previous examination of Wisconsin Municipal Mutual Insurance Company (WMMIC or 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. The approach was modified to focus on the significant financial statement balances and transactions.

All 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 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

The company was incorporated in 1987 under s. 66.30, Wis. Stat., as a "joint powers authority" rather than under the Wisconsin insurance statutes. The company was organized due to significant premium increases being experienced by municipalities and the inability of certain municipalities to obtain insurance in the mid-1980s. On December 22, 1987, the company was issued a certificate of authority to operate as a mutual insurance company under ch. 611, Wis. Stat., for the purpose of providing automobile liability and general liability insurance at a reasonable cost to its members. WMMIC began offering worker's compensation insurance coverage in 2000. The company discontinued the program in 2010 and resumed offering worker's compensation coverage in January 2013. The company has again discontinued writing worker's compensation insurance in 2021, and for prior years, all the outstanding worker's compensation policies were fully reinsured. WMMIC continues to provide third-party administration (TPA) services regarding worker's compensation to its members.

On July 24, 2015, WMMIC purchased 30 shares of \$1 par value common stock of Municipal Property Insurance Company (MPIC), a stock company, for a total investment of \$3,000,000. MPIC commenced business on September 1, 2015, to write property insurance for municipalities in the state of Wisconsin. MPIC was capitalized equally by Cities & Villages Mutual Insurance Company (CVMIC), League of Wisconsin Municipalities Mutual Insurance (LWMMI), and WMMIC. Each investor contributed \$3,000,000 in capital for an initial capitalization of \$9,000,000 and purchased 30 shares each of common stock. The three investors have equal voting rights.

Initial capitalization of \$13.3 million was obtained through the company's public offering of tax-exempt serial revenue bonds which were secured by letters of credit issued by company members which have been fully repaid.

Each member municipality has a self-insured retention (SIR) limit and an annual aggregate retention limit, which is based on an actuarial valuation. Each member is obligated to fund losses until the SIR limit is reached. The self-insured retentions of the company's members range from \$5,000 to \$500,000 per single accident and from \$50,000 to \$2,250,000 in annual aggregate.

Currently, WMMIC is comprised of 20 members. The company's members include three cities, 15 counties and two special-use districts. Special-use districts are typically developed for one or

more specific purposes and are overlaid on zoning districts. All members are required to contribute capital to the company except for the two special-use districts that are not equity members. The company is licensed only in Wisconsin and does not write any business outside Wisconsin. The company's major products marketed include Other Liability—Occurrence and Other Commercial Auto Liability. Marketing and distribution is the sole responsibility of the company's Executive Director.

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
Other liability – occurrence	\$7,109,521	\$	\$2,506,977	\$4,602,544
Other commercial auto liability	<u>910,165</u>		<u>309,851</u>	<u>600,314</u>
Total All Lines	<u>\$8,019,686</u>	<u>\$</u>	<u>\$2,816,828</u>	<u>\$5,202,858</u>

III. MANAGEMENT AND CONTROL

Board of Directors

The board of directors consists of seven members. At least five directors are chosen from the company's member representatives. In addition, the board may nominate up to two at-large directors who are experienced in the insurance industry, but those individuals are not required to represent any of the company's members. All directors serve a three-year term and until their successors have been elected and qualified. Directors shall be divided into three classes with the expectation that their terms will be staggered. Directors may serve an unlimited number of terms. Directors are not compensated for serving on the board; however, directors receive reimbursement for meals, lodging, and mileage at the state government rate for travel expenses when attending meetings.

At the time of examination the board of directors consisted of the following persons:

Name	Principal Occupation	Term Expires
Kenneth L. Witt Hudson, Wisconsin	County Administrator St. Croix County	2026
Benjamin P. Wehmeier Jefferson, Wisconsin	County Administrator Jefferson County	2024
Douglas Hoffer Eau Claire, Wisconsin	Deputy City Attorney City of Eau Claire	2025
Kristi Palmer Wausau, Wisconsin	Finance Director Marathon County	2024
Richard Greenlee Janesville, Wisconsin	Corporation Counsel Rock County	2026
Erik Weidig Waukesha, Wisconsin	Corporation Counsel Waukesha County	2025
Eric Veum Madison, Wisconsin	Risk Manager City of Madison	2026

Officers of the Company

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

Name	Office
Pallin E. Allen	Executive Director
Kenneth L. Witt	Chairman
Benjamin P. Wehmeier	Vice Chairman

Name	Office
Megan Rogers	Secretary
Robert W. Ries	Treasurer

Committees of the Board

The company's bylaws allow for the formation of certain committees by the board of directors, including representatives of member municipalities who are not directors. The committees at the time of the examination are listed below (committees' members listed below include directors only):

Claims Committee

Douglas Hoffer, Chair
Richard Grenlee
Erik Weidig

Underwriting Committee

Benjamin P. Wehmeier, Chair
Eric Veum

Finance Committee

Kristi Palmer, Chair
Kenneth L. Witt
Benjamin P. Wehmeier

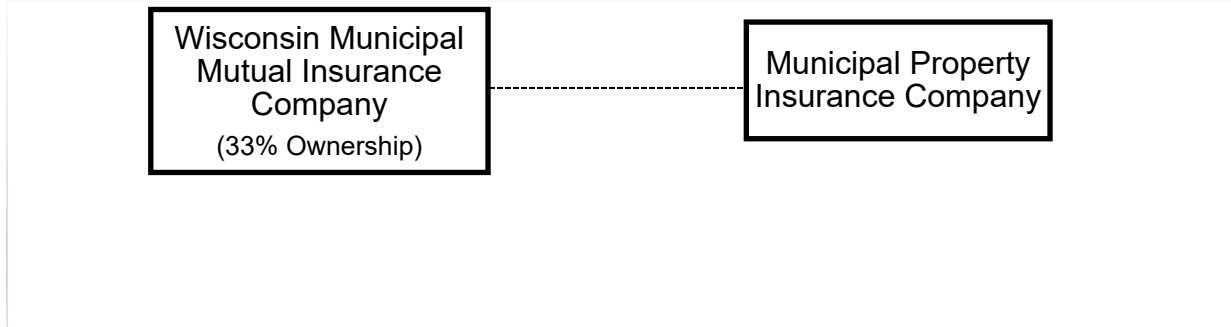
Nominating Committee

Erik Weidig, Chair
Douglas Hoffer

IV. AFFILIATED COMPANIES

Wisconsin Municipal Mutual Insurance Company owns 33% interest in Municipal Property Insurance Company (MPIC). The organizational chart below depicts the relationships with the affiliate. A brief description of MPIC follows the organizational chart.

Organizational Chart As of December 31, 2022



Municipal Property Insurance Company

As noted earlier in this report, MPIC was formed to provide property insurance coverage to Wisconsin municipalities. MPIC was established as a stock insurance company owned equally by CVMIC, LWMMI, and WMMIC. MPIC 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.

As of December 31, 2022, the audited statutory financial statements of MPIC reported assets of \$26,459,269, liabilities of \$14,168,759, and surplus of \$12,290,510. The company's operations for 2022 produced net loss of \$291,955.

V. 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 include proper insolvency provisions.

Nonaffiliated Ceding Contracts

1. Type: Casualty Excess of loss

Reinsurer: The reinsurers, and their respective participation by layer, include the following.

<u>Subscribing Reinsurer</u>	<u>Layer 1</u>	<u>Layer 2</u>
Government Entities Mutual (GEM)	75.00%	0.00%
General Reinsurance Corporation	25.00%	100.00%

Scope: Casualty Excess of Loss for the following:

- General liability (including liability for law enforcement activities)
- Automobile liability (includes uninsured motorists)
- Public officials' errors and omissions liability (includes employee benefits liability)

Retention: \$2,000,000 per occurrence in excess of the participating member retentions

Coverage: (a) Under the First Excess Cover, percentage of the subscribing reinsurer of the next \$8,000,000 per occurrence in excess of the Company Retention in respect of all lines of coverage combined under all policies in force for the participating member, subject to any available policy aggregate remaining.

(b) Under the Second Excess Cover, \$2,000,000 per occurrence in excess of \$10,000,000 per occurrence in respect of all lines of coverage combined under all policies in force for the participating member, subject to any available policy aggregate remaining.

In addition, the related loss adjustment expenses paid proportionate to the reinsurer's share of net loss.

Company policy limits should not exceed:

General liability: \$15,000,000 each occurrence
33,000,000 policy aggregate

Automobile liability: \$15,000,000 each accident

Public officials E&O liability: \$15,000,000 each wrongful act
33,000,000 policy aggregate

Effective date: January 1, 2023, to January 1, 2024

Termination: By either party with 120 days advance written notice.

2. Type: Casualty Excess of Loss

Reinsurer: Munich Reinsurance America, Inc.

Scope: Casualty Excess of Loss for the following lines of business:

- Bodily Injury and Property Damage (includes Products/Completed Operations Liability, General Liability and Automobile Liability coverages).
- Personal Injury Liability.
- Public officials' errors and omissions liability.
- Unfair Employment Practices Liability.
- Employee Benefits Errors Liability.

Retention: \$12,000,000 ultimate net loss, per loss occurrence, per member.

Coverage: \$3,000,000 ultimate net loss, for all loss occurrences, per member

Effective date: January 1, 2023, to January 1, 2024

Termination: The Reinsurer shall be discharged and released of all liability as of the expiration date (and until all the obligations and liabilities incurred by each party prior to such expiration are fully performed and discharged).

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.

Wisconsin Municipal Mutual Insurance Company Assets As of December 31, 2022

	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	\$32,588,092	\$	\$32,588,092
Stocks:			
Preferred stocks	816,841		816,841
Common stocks	10,084,034		10,084,034
Real estate:			
Cash, cash equivalents, and short-term investments	2,276,911		2,276,911
Other invested assets	500,000		500,000
Write-ins for invested assets:			
Investment income due and accrued	164,891		164,891
Electronic data processing equipment and software	8,254	8,254	0
Write-ins for other than invested assets:			
Investments held for self-insured retention member accounts.	6,791,873		6,791,873
Prepaid expenses	91,425	91,425	
Other receivables	<u>300</u>	<u> </u>	<u>300</u>
Total Assets	<u>\$53,322,621</u>	<u>\$99,679</u>	<u>\$53,222,942</u>

Wisconsin Municipal Mutual Insurance Company
Liabilities, Surplus, and Other Funds
As of December 31, 2022

Losses		\$9,618,737
Loss adjustment expenses		3,539,526
Other expenses (excluding taxes, licenses, and fees)		53,341
Write-ins for liabilities:		
Amount withheld for member SIR accounts		<u>6,791,873</u>
 Total Liabilities		 \$20,003,477
 Write-ins for other than special surplus funds:		
Gross paid in and contributed surplus	\$24,543,665	
Unassigned funds (surplus)	<u>8,675,800</u>	
 Surplus as Regards Policyholders		 <u>\$33,219,465</u>
 Total Liabilities and Surplus		 <u>\$53,222,942</u>

Wisconsin Municipal Mutual Insurance Company
Summary of Operations
For the Year 2022

Underwriting Income		
Premiums earned		\$5,202,858
Deductions:		
Losses incurred	\$1,701,363	
Loss adjustment expenses incurred	1,260,033	
Other underwriting expenses incurred	1,364,068	
Write-ins for underwriting deductions:		
Total underwriting deductions		<u>\$4,325,464</u>
Net underwriting gain (loss)		877,394
Investment Income		
Net investment income earned	673,730	
Net realized capital gains (losses)	<u>(360,825)</u>	
Net investment gain (loss)		\$312,905
Other Income		
Write-ins for miscellaneous income:		
Commissions	118,014	
Credit card cash rewards	<u>1,827</u>	
Total other income		<u>\$ 119,841</u>
Net income (loss) before dividends to policyholders and before federal and foreign income taxes		1,310,140
Dividends to policyholders		<u>988,421</u>
Net income (loss) after dividends to policyholders but before federal and foreign income taxes		<u>321,719</u>
Net Income (Loss)		<u>\$ 321,719</u>

Wisconsin Municipal Mutual Insurance Company
Cash Flow
For the Year 2022

Premiums collected net of reinsurance		\$5,202,858
Net investment income		705,340
Miscellaneous income		<u>119,841</u>
Total		6,028,039
Benefit- and loss-related payments	\$ 435,569	
Commissions, expenses paid, and aggregate write-ins for deductions	2,733,381	
Dividends paid to policyholders	988,421	
Total deductions		<u>4,157,371</u>
Net cash from operations		1,870,668
Proceeds from investments sold, matured, or repaid:		
Bonds	\$ 3,747,250	
Stocks	3,717,078	
Miscellaneous proceeds	<u>100,338</u>	
Total investment proceeds		7,564,666
Cost of investments acquired (long- term only):		
Bonds	4,422,794	
Stocks	4,236,640	
Total investments acquired		<u>8,659,434</u>
Net cash from investments		(1,094,768)
Cash from financing and miscellaneous sources:		
Other cash provided (applied)	<u>23,581</u>	
Net cash from financing and miscellaneous sources		<u>23,581</u>
Reconciliation:		
Net Change in Cash, Cash Equivalents, and Short-Term Investments		
		799,481
Cash, cash equivalents, and short-term investments:		
Beginning of year		<u>1,477,422</u>
End of Year		<u>\$2,276,902</u>

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

Assets		\$ 53,222,942
Less security surplus of insurance subsidiaries		3,461,095
Less liabilities		<u>20,003,477</u>
Adjusted surplus		29,758,370
Annual premium:		
Lines other than accident and health	\$ 4,214,437	
Factor	<u>20%</u>	
Compulsory surplus (subject to a minimum of \$2 million)		<u>2,000,000</u>
Compulsory Surplus Excess (Deficit)		<u>\$27,758,370</u>
Adjusted surplus (from above)		\$29,758,370
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>\$26,958,370</u>

**Wisconsin Municipal 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	\$35,233,085	\$32,428,174	\$30,584,377	\$29,455,221	\$30,720,710
Net income	321,719	920,484	611,062	1,261,551	(1,827,205)
Change in net unrealized capital gains/losses	(2,359,227)	1,932,134	1,182,485	(161,725)	(134,155)
Change in nonadmitted assets	23,888	(47,707)	19,600	29,330	(82,129)
Change in provision for reinsurance					778,000
Write-ins for gains and (losses) in surplus:					
Prior period adjustment			<u>30,650</u>		
Surplus, End of Year	<u>\$33,219,465</u>	<u>\$35,233,085</u>	<u>\$32,428,174</u>	<u>\$30,584,377</u>	<u>\$29,455,221</u>

Growth of Wisconsin Municipal Mutual Insurance Company

Year	Admitted Assets	Liabilities	Surplus as Regards Policyholders	Net Income
2022	\$53,222,942	\$20,003,477	\$33,219,465	\$321,719
2021	55,071,369	19,838,284	35,233,085	920,484
2020	52,684,035	20,255,861	32,428,174	611,062
2019	50,949,210	20,364,833	30,584,377	1,261,551
2018	49,981,618	20,526,397	29,455,221	(1,827,205)
2017	50,129,143	19,408,433	30,720,710	(641,081)

Year	Gross Premium Written	Net Premium Written	Premium Earned	Loss and LAE Ratio	Expense Ratio	Combined Ratio
2022	\$8,019,686	\$5,202,858	\$5,202,858	58.9%	23.9 %	82.8 %
2021	7,230,918	4,656,191	4,656,191	64.7	26.1	90.8
2020	7,091,254	4,607,748	4,607,748	57.9	22.4	80.3
2019	7,438,623	4,313,885	4,313,885	39.7	26.1	65.8
2018	6,563,438	3,605,498	3,605,498	110.3	30.8	141.1
2017	5,401,666	3,163,089	3,163,089	116.0	27.7	143.7

WMMIC reported that admitted assets, liabilities, and surplus have not exhibited significant fluctuations over the exam period reflecting the stable customer base and generally adequate premiums necessary to cover claims and expenses. The variation that does exist generally results from changes in the values of investments and movement in loss reserves/claims activity.

Stock investment value changes are not viewed as unusual. Movement in reserves and claims activity can be significant when writing general and auto liability policies with high deductible/retention amounts. General liability claims, in particular, are sometimes not filed or identified upon occurrence and are subject to the natural variability associated with large claims involving litigation.

Premiums written have increased materially in line with increasing claims exposures rather than increasing the number of policyholders, which has not changed.

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

1. Articles of Incorporation and Bylaws —It is recommended that the company file a copy of its amended and restated articles of incorporation with OCI pursuant to ch. 611.29 (4), Wis. Stat.

Action—Compliance.

2. Articles of Incorporation and Bylaws —It is further recommended that the company file a copy of its amended and restated bylaws with OCI pursuant to ch. 611.12 (4), Wis. Stat.

Action—Compliance.

3. 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

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.

Conflicts of Interest Statements

During the review of the company's conflict of interest disclosure forms, it was noted that the conflict of interest form for certain employees could not be located.

The March 1989 Conflict of Interest Directive issued by the Wisconsin Commissioner of Insurance requires that each insurer establish procedures for the annual disclosure of any material interest or affiliation that is in or likely to conflict with the official duties of its officers, directors, trustees, or responsible employees. It is recommended that each of the company's officers, directors, and key employees annually make conflict of interest disclosure to the company, pursuant to the March 1989 Conflict of Interest Directive of the Commissioner of Insurance.

IT Management Comment Letter

During the current examination, it was noted that the company should strengthen its IT control environment in certain areas. Additional IT findings and recommendations were provided to the company in the form of an IT Management Comment Letter. It is recommended that the company comply with the recommendations delineated in the IT Management Comment Letter.

VIII. CONCLUSION

Wisconsin Municipal Mutual Insurance Company reported admitted assets of \$53,222,942, liabilities of \$20,003,477, and surplus as regards policyholders of \$33,219,465 as of December 31, 2022. During the examination period, the company's liabilities increased by \$595,044, while the company's assets and surplus increased by \$3,093,799 and \$2,498,755, respectively.

There have been no changes in policy count since the last examination. WMMIC policyholders continue to include three cities, 15 counties, and two special-use districts. All members are required to contribute capital to the company except for the two special-use districts that are not equity members. The major products marketed by the company include other liability occurrence, and commercial auto liability. Third-party adjusting and other services are provided to members, including the worker's compensation lines discontinued during the current exam cycle. The company continues to own one-third ownership in MPIC, which provides property insurance coverage to Wisconsin municipalities.

The examination resulted in two recommendations one of which is included in a separate IT Management Comment Letter.

IX. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 18 - Conflict of Interest Statements—It is recommended that each of the company's officers, directors, and key employees annually make conflict of interest disclosure to the company, pursuant to the March 1989 Conflict of Interest Directive of the Commissioner of Insurance.
2. Page 18 - IT Management Comment Letter— It is recommended that the company comply with all findings delineated in the IT Management Comment Letter.

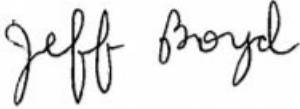
X. ACKNOWLEDGMENT

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
Abdel-Aziz Kondoh	Insurance Financial Examiner
Adam Donovan	IT Specialist
Terry Lorenz, CFE	Workpaper Specialist
Jerry DeArmond, CFE	Reserve Specialist

Respectfully submitted,



Jeff Boyd
Examiner-in-Charge