

**Wisconsin Reinsurance Corporation (In Rehabilitation)**  
**1<sup>st</sup> Auto & Casualty Insurance Company (In Rehabilitation)**

Frequently Asked Questions (FAQ) for 1st Auto Policyholders  
Dated: May 23, 2023

On May 23, 2023, the Wisconsin Office of the Commissioner of Insurance (OCI) filed a Petition with the Dane County Circuit Court in Madison, Wisconsin (the Court) to place Wisconsin Reinsurance Corporation (WRC) and its subsidiary, 1<sup>st</sup> Auto & Casualty Insurance Company (1<sup>st</sup> Auto), into rehabilitation. The Court has granted and entered an Order for Temporary Injunctive Relief, which prohibits certain actions while the Court considers the Petition. The following are answers to anticipated questions.

## General

### What is WRC and 1<sup>st</sup> Auto?

Wisconsin Reinsurance Corporation is a stock property and casualty insurance company with its primary business to reinsure property and nonproperty liability risks written on a direct basis by small mutual insurance companies.

1<sup>st</sup> Auto & Casualty Insurance Company is a stock property and casualty insurance company that writes primarily private passenger automobile liability and physical damage insurance, personal and farm umbrella and liability, and commercial automobile liability and commercial automobile physical damage insurance. These products are primarily marketed to policyholders of town mutual insurers that are reinsured by WRC.

### Where is WRC and 1<sup>st</sup> Auto located?

WRC and 1<sup>st</sup> Auto is a Wisconsin-domiciled insurance company, and its primary office is located in Madison, Wisconsin.

### Is WRC and 1<sup>st</sup> Auto still in business?

Yes. The OCI Petition as well as the Court's Order allow WRC and 1<sup>st</sup> Auto to continue to conduct its business as usual, subject to the limitations of Rehabilitation explained in these FAQs.

### Is WRC and 1<sup>st</sup> Auto selling new insurance policies?

Yes, WRC and 1<sup>st</sup> Auto are still selling new policies and renewing current policies based on their underwriting guidelines.

## Who is in charge of WRC and 1<sup>st</sup> Auto during rehabilitation?

OCI has asked the Court to appoint Wisconsin Insurance Commissioner Nathan Houdek (the Commissioner) and any successor as the Rehabilitator of WRC and 1<sup>st</sup> Auto. OCI's Division of Financial Regulation (DFR), under the direction of Administrator Amy Malm, will oversee WRC and 1<sup>st</sup> Auto's rehabilitation. This is standard practice for all Wisconsin insurance liquidations and rehabilitations. The Commissioner has asked the Court to appoint Justin Schrader of Noble Consulting as its Special Deputy Commissioner (SDC) to represent and assist OCI in this matter.

## Who is the Rehabilitation Management Team at the OCI?

The Rehabilitation Management Team (RMT) at OCI is an informal group that consists of the Rehabilitator, the Special Deputy Commissioner (SDC), Administrator Amy Malm, and the DFR.

## Who is the Special Deputy Commissioner and what is his role?

As outlined in the Rehabilitation Petition and Wis. Stat. § 645.33 (1), the Commissioner has asked the Court to appoint Justin Schrader, an insurance rehabilitation expert, as its Special Deputy Commissioner (SDC). Under the Rehabilitation Order and the statute, Mr. Schrader "shall have all the powers of the rehabilitator" and will be in charge of the company's day-to-day affairs and of the rehabilitation efforts, subject to the oversight of the Commissioner, OCI, and the Court.

## What does rehabilitation mean?

Rehabilitation is a court-supervised process intended to remedy the company's financial condition to protect policyholders and creditors. The Rehabilitator and the SDC, in conjunction with the RMT, are charged with the protection of WRC and 1<sup>st</sup> Auto's policyholders, creditors, and the public. The RMT's actions are pursuant to the laws and regulations of Wisconsin and are subject to review by the Court.

## What does the Rehabilitation Order provide?

You can review the proposed Rehabilitation Order in its entirety at:

[WRC and 1<sup>st</sup> Auto Rehabilitation](#)

Generally, the Rehabilitation Order, in keeping with Wisconsin law, appoints the Commissioner as Rehabilitator. It also authorizes and directs the Commissioner as Rehabilitator and the SDC to take possession of WRC's and 1<sup>st</sup> Auto's business. This allows for actions to be taken to correct the financial condition that prompted WRC's and 1<sup>st</sup> Auto's rehabilitation.

## How will rehabilitation change the company's business?

Initially, WRC and 1<sup>st</sup> Auto will continue operating largely as it has been except that it will be under the control of OCI and the RMT. The goal of OCI, in this case, is to propose and obtain Court approval of a

Rehabilitation Plan on an expeditious basis. If a Rehabilitation Plan is approved by the Court, the Rehabilitation Plan may mandate changes in WRC and 1<sup>st</sup> Auto's business to protect WRC's and 1<sup>st</sup> Auto's policyholders, creditors, and the public.

### **Why was this action necessary?**

On March 31, 2023, WRC filed with the Wisconsin Office of the Commissioner of Insurance its 2022 statutory financial statements which contained the disclosure that: "Losses to surplus in the last two years resulting from severe convective storm activity in the Midwest has raised substantial doubt about the Corporation's ability to continue as a going concern within one year following the date of the financial statements."

On March 31, 2023, 1<sup>st</sup> Auto filed with the Wisconsin Office of the Commissioner of Insurance its 2022 statutory financial statement which contained the disclosure that: "The Company relies on reinsurance arrangements with its Parent, Wisconsin Reinsurance Corporation (WRC), to partially support underwriting losses associated with its personal and commercial auto business. Continued underwriting losses caused by increasing claims costs in recent years along with losses to WRC's surplus in the last two years resulting from severe convective storm activity in the Midwest has raised substantial doubt about the Company's ability to continue as a going concern within one-year following the date of the financial statements."

OCI has determined WRC and 1<sup>st</sup> Auto has become or is about to become insolvent as defined under Wis. Stat. § 645.41 (2).

WRC and 1<sup>st</sup> Auto management team continue to work with OCI on opportunities to bring additional capital resources into WRC and 1<sup>st</sup> Auto to reverse the unfavorable operating trend. The filing of the Rehabilitation Petition was a step toward developing a Rehabilitation Plan which can gain the approval of both OCI and the Court.

### **How will the company be rehabilitated?**

The Commissioner and SDC will, within 45 days after the Court enters the Rehabilitation Order (and potentially sooner), propose to the Court a Plan for the rehabilitation of WRC and 1<sup>st</sup> Auto (the Rehabilitation Plan).

### **When will the Rehabilitation Plan be filed and provided to policyholders and interested parties?**

The proposed Court Order placing WRC and 1<sup>st</sup> Auto in rehabilitation (the Rehabilitation Order) requires that a Preliminary Rehabilitation plan be filed within 45 days of the Court entering the Rehabilitation Order unless the Court extends that deadline.

### **How can I get a copy of the Rehabilitation Order?**

The proposed Rehabilitation Order can be downloaded from the OCI's website [WRC and 1<sup>st</sup> Auto Rehabilitation](#)

## Were other efforts made to address WRC and 1<sup>st</sup> Auto financial problems before it was placed in rehabilitation?

Yes. The Commissioner and WRC and 1<sup>st</sup> Auto's management have been working since October to restore WRC and 1<sup>st</sup> Auto's financial condition before seeking its Rehabilitation. Those efforts continue now with the supervision of the Court.

## Is it likely that WRC and 1<sup>st</sup> Auto will be placed in liquidation?

The goal of rehabilitation is to avoid placing WRC and 1<sup>st</sup> Auto into liquidation, and every effort will be made to avoid that outcome. However, there can be no assurance that a Rehabilitation Plan will be approved and successfully implemented to avoid liquidation.

## If WRC and 1<sup>st</sup> Auto is placed in liquidation, when will that happen?

The RMT cannot predict at this time whether, and if so when, WRC and 1<sup>st</sup> Auto may be placed in liquidation. WRC and 1<sup>st</sup> Auto would be placed into liquidation if the Court finds that the Rehabilitation should be converted to a liquidation. Under Wis. Stat. § 645.35 (1), the Commissioner can request that the Rehabilitation be converted to a liquidation "whenever the rehabilitator believes that further attempts to rehabilitate an insurer would substantially increase the risk of loss to creditors, policyholders, or the public, or would be futile ...."

## I have information I want to send only to the rehabilitation team. How do I do that?

You may send an email to [jschrader@noblecon.net](mailto:jschrader@noblecon.net). This is an address accessible only by the SDC.

## What is the exact legal name of the court case for WRC and 1<sup>st</sup> Auto's rehabilitation?

The case is titled *In the Matter of the Rehabilitation of Wisconsin Reinsurance Corporation and 1<sup>st</sup> Auto & Casualty Insurance Company*, Case No. 2023 CV 001310, in Dane County Circuit Court of Madison, Wisconsin.

## How do I keep up with what is going on with WRC and 1<sup>st</sup> Auto?

All pleadings filed in 1<sup>st</sup> Auto rehabilitation, as well as relevant notices, will be posted on OCI's website [WRC and 1<sup>st</sup> Auto Rehabilitation](#)

## Whom should I contact for additional information regarding WRC and 1<sup>st</sup> Auto or the rehabilitation?

You may write to the company at:

Justin Schrader  
Special Deputy Commissioner  
C/O 1<sup>st</sup> Auto & Casualty Insurance Company

Office of the Commissioner of Insurance  
PO Box 7873  
Madison, WI 53707

You may send electronic mail to:  
jschrader@noblecon.net

You may also call:  
(402) 617-9340

## Policyholders (1<sup>st</sup> Auto)

### What is the status of my 1<sup>st</sup> Auto policy?

At this time, your policy terms and conditions remain exactly as they were before the Rehabilitation Petition. It is important that you continue paying any premiums due under the policy on time to avoid cancellation of your policy. You may continue paying your policy in the same manner as before.

### Can I request changes to my 1<sup>st</sup> Auto policy?

Yes, for changes that would be in the normal course of business. However, in addition to 1<sup>st</sup> Auto established procedures, all requested changes will be subject to review by the RMT.

### I am about to move. Will that affect my 1<sup>st</sup> Auto policy?

No. But 1<sup>st</sup> Auto must always have your current and complete contact information. Please be sure 1<sup>st</sup> Auto is informed of any change of address promptly. Although a change in residence will not affect your policy now, your guaranty association coverage could change based on your resident state.

### I have not filed claims against my policy. Does 1<sup>st</sup> Auto's rehabilitation affect me?

Not at this time. It is important that you continue paying any premiums due under the policy on time to avoid cancellation. The extent to which the Rehabilitation Plan may eventually affect policyholders will be explained in the proposed Rehabilitation Plan.

### I currently have claims outstanding against my policy. Does 1<sup>st</sup> Auto's rehabilitation affect me?

Not at this time. 1<sup>st</sup> Auto will continue to provide the benefits to which you are entitled under your policy. All ongoing claims should be reported to 1<sup>st</sup> Auto per its established procedures. The extent to which the Rehabilitation Plan may eventually affect policyholders who have outstanding claims will be explained in the proposed Rehabilitation Plan.

### **I have not filed claims against my policy. Does 1<sup>st</sup> Auto's rehabilitation affect me if I plan to file a claim?**

Not at this time. All new claims should be reported to 1<sup>st</sup> Auto per its established procedures. 1<sup>st</sup> Auto will continue to provide the benefits to which you are entitled under your policy. The extent to which the Rehabilitation Plan may eventually affect policyholders who have outstanding claims will be explained in the proposed Rehabilitation Plan.

### **Should I cancel my 1<sup>st</sup> Auto insurance policy and replace it with a policy from another insurer?**

That is a decision only you can make based on your insurance needs.

### **Is it likely that the Rehabilitator will cancel 1<sup>st</sup> Auto's insurance policies as part of the Rehabilitation Plan?**

While we won't know the terms of the Rehabilitation Plan until it is approved by the Court, the RMT may contemplate seeking authority to cancel 1<sup>st</sup> Auto's policies. However, if it becomes necessary to place 1<sup>st</sup> Auto in liquidation, it will be necessary to terminate policies at the earliest of:

- a) 15 days from the date of entry of the liquidation order, or
- b) The normal date for the expiration of coverage; or
- c) Until 1<sup>st</sup> Auto has replaced the insurance coverage with equivalent insurance in another insurer; or
- d) Until the Liquidator has effected a transfer of the policy obligation pursuant to §645.46 (8), whichever time is less.

### **What are insurance guaranty associations (guaranty associations)?**

Guaranty associations are organizations created by state law in each state that are responsible for paying at least some of the amounts owed by insurers in liquidation under their policies.

### **Are any guaranty associations responsible for the amounts 1<sup>st</sup> Auto owes me or may owe me in the future?**

Generally, guaranty associations become responsible for an insurer's obligations only if the insurer is found by the Court to be insolvent and placed in liquidation. 1<sup>st</sup> Auto has not been found by the Court to be insolvent and has not been placed in liquidation. Therefore, no guaranty association is responsible for 1<sup>st</sup> Auto's policy obligations at this time. That is likely to change if 1<sup>st</sup> Auto is placed in liquidation.

**ABOUT THESE QUESTIONS AND ANSWERS: The information contained in these questions and answers is intended to be general guidance and does not address any specific claim or circumstances. Nothing herein constitutes a binding legal statement by the Commissioner, the Rehabilitator, the SDC, the RMT, OCI, or WRC and 1<sup>st</sup> Auto. The statements contained herein are not intended to serve as and do not constitute, legal advice or complete legal descriptions of the events or matters to which they relate. Any forward-looking statements are based on current expectations and assumptions, which are subject to inherent uncertainties, risks, and changes in circumstances that are difficult to predict. For full legal information, interested parties should review the Rehabilitation Order and the applicable Wisconsin statutes, and other legal authorities.**