

WRC Rehabilitation Planning Meeting

June 27, 2023



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Today's Meeting

- ▶ Background and Goals of Rehabilitation
- ▶ Current Financial Landscape
- ▶ Reinsurance Option
- ▶ Support from 1st Auto and WASI
- ▶ Merger Option
- ▶ Options for Maintaining Compliance with Wisconsin Law for 2024
- ▶ Q&A



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Background and Goals of Rehab

- ▶ WI OCI and WRC management working together to evaluate options
 - ▶ Stabilize WRC to ensure all current, and potential future, obligations can be met
 - ▶ Promote long-term availability of coverage from the town mutual industry
 - ▶ Pool resources to have scale that justifies expenses, including reinsurance costs
 - ▶ Protect value to stockholders and other creditors



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Current Financial Landscape

- ▶ WRC's 5-year financial results
 - ▶ WRC's reinsurance costs
 - ▶ Loss ratios
 - ▶ Surplus
 - ▶ Stock price

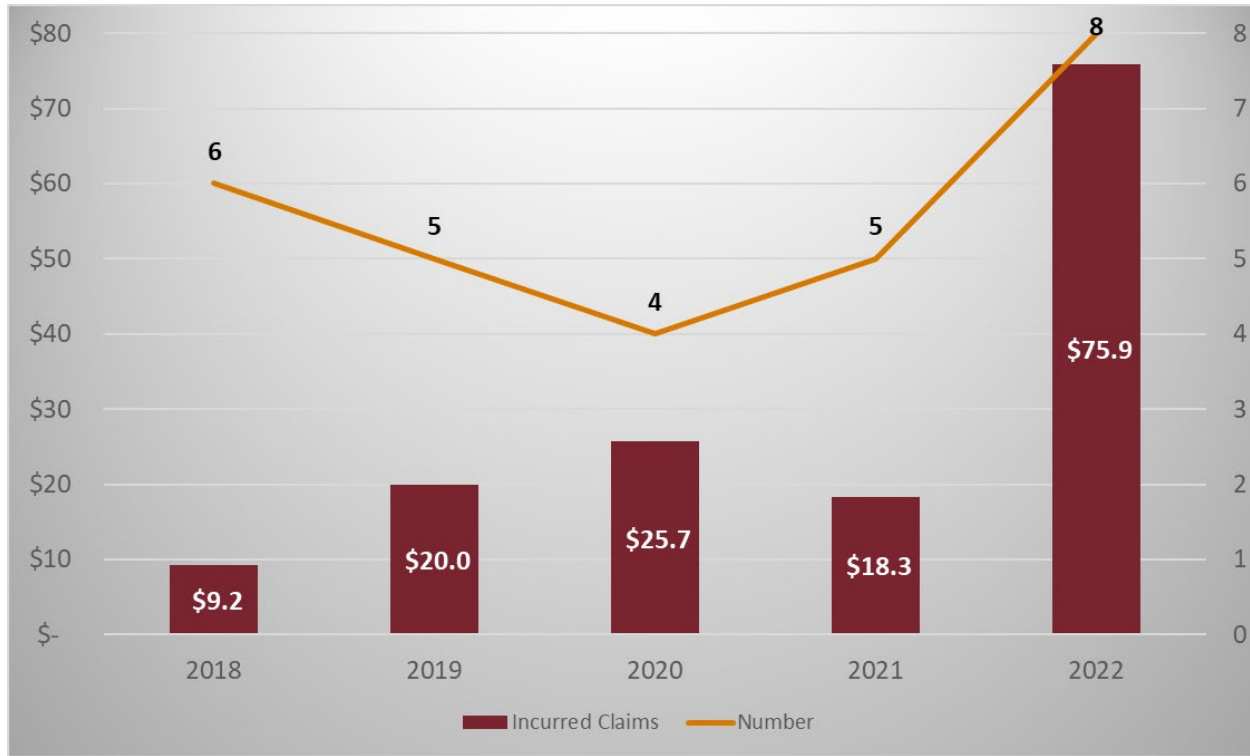


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Catastrophe Events

(In Millions)



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Reinsurance Cost

	Cost/Rates/Rates on Line			Increase	
	2019	2022	2023	4-year	1-year
Property per Risk	\$ 190,000	\$ 205,000	\$ 250,000	32%	22%
Casualty Clash	\$ 180,000	\$ 230,000	\$ 260,000	44%	13%
1st Multiple Line	4.700%	4.850%	6.141%	31%	27%
2nd Multiple Line	0.400%	0.410%	0.593%	48%	45%
1st Catastrophe	33.750%	30.500%	43.000%	27%	41%
2nd Catastrophe	9.000%	14.750%	25.000%	178%	69%
3rd Catastrophe	2.500%	3.200%	8.000%	220%	150%

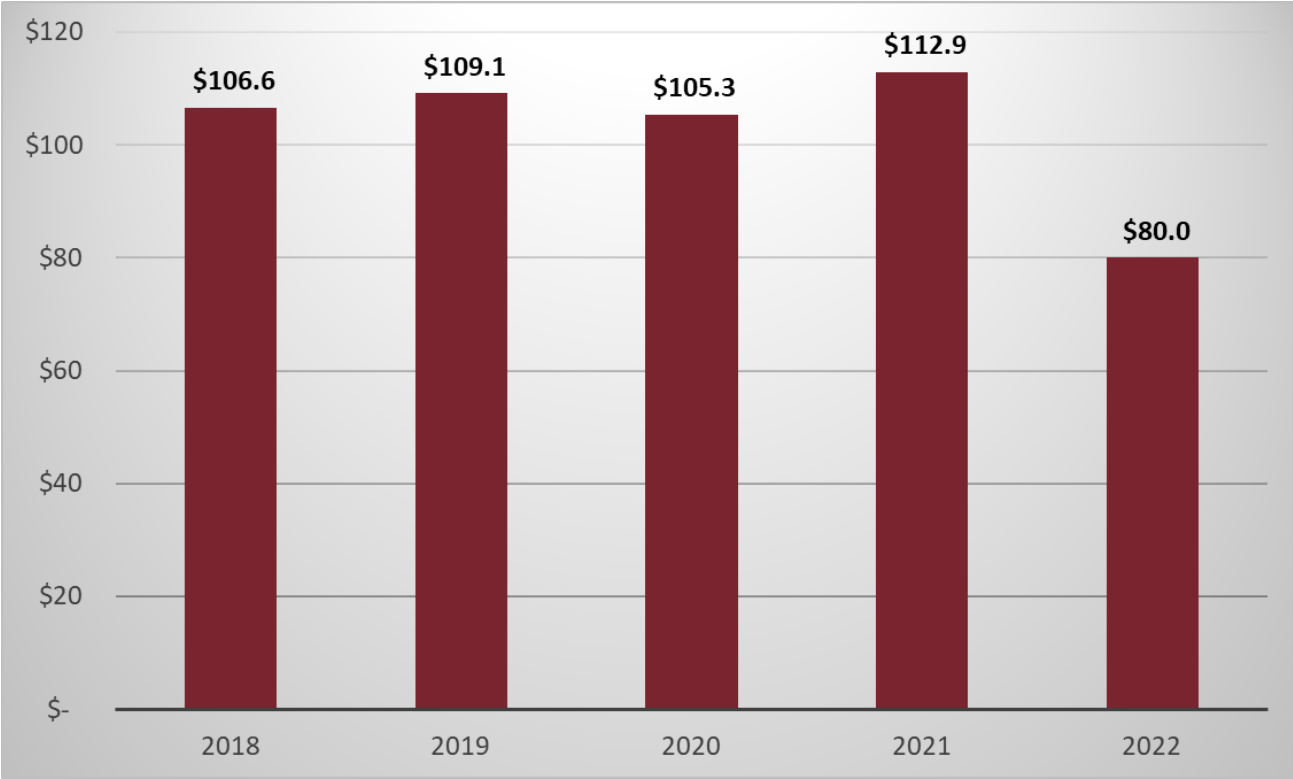


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Consolidated Admitted Assets

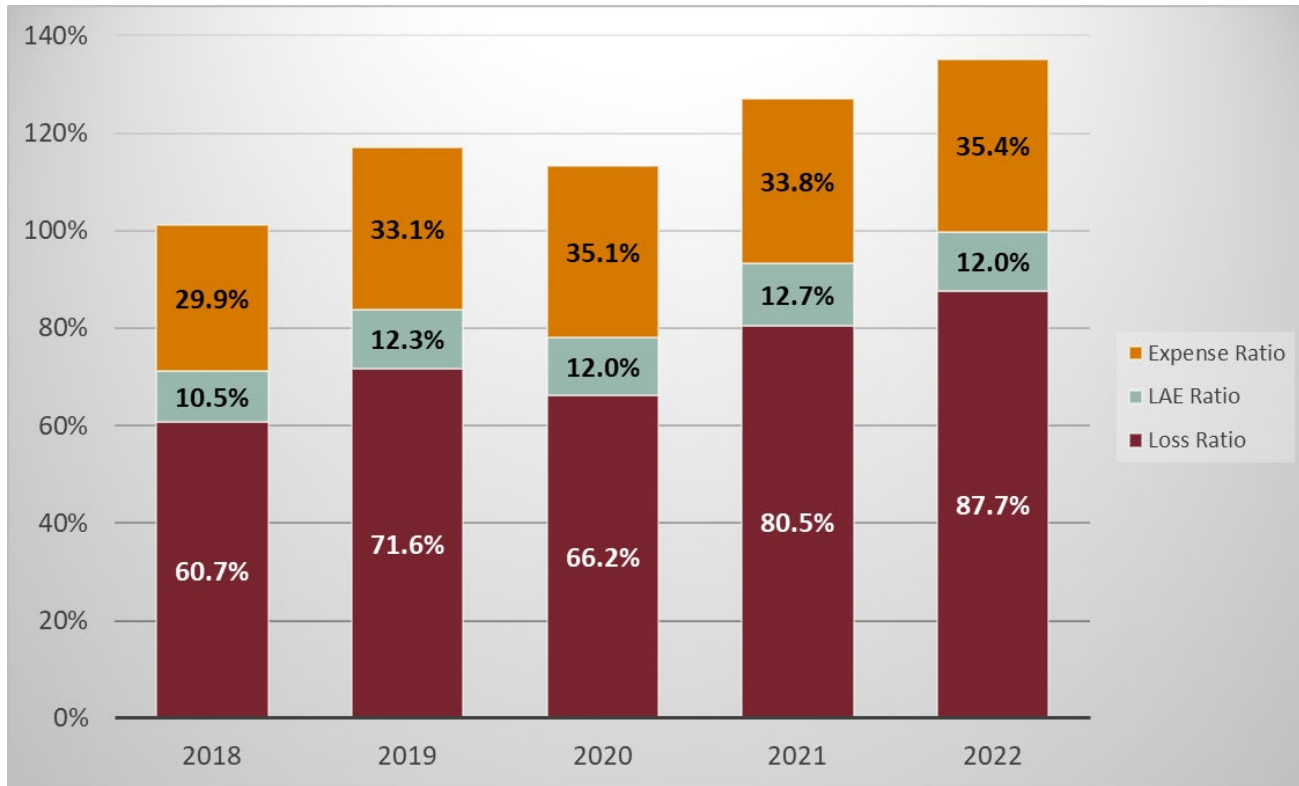
(In Millions)



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Consolidated Combined Ratio

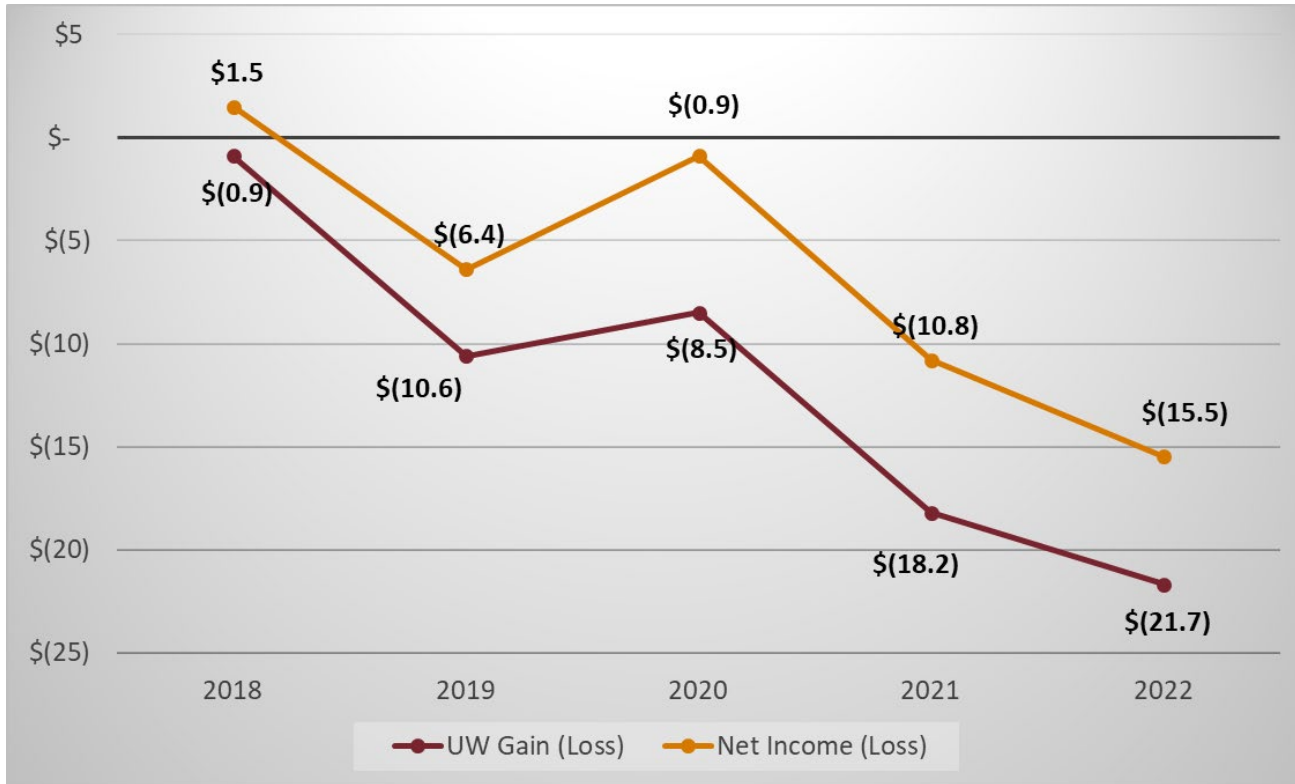


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Consolidated Net Income (Loss)

(In Millions)

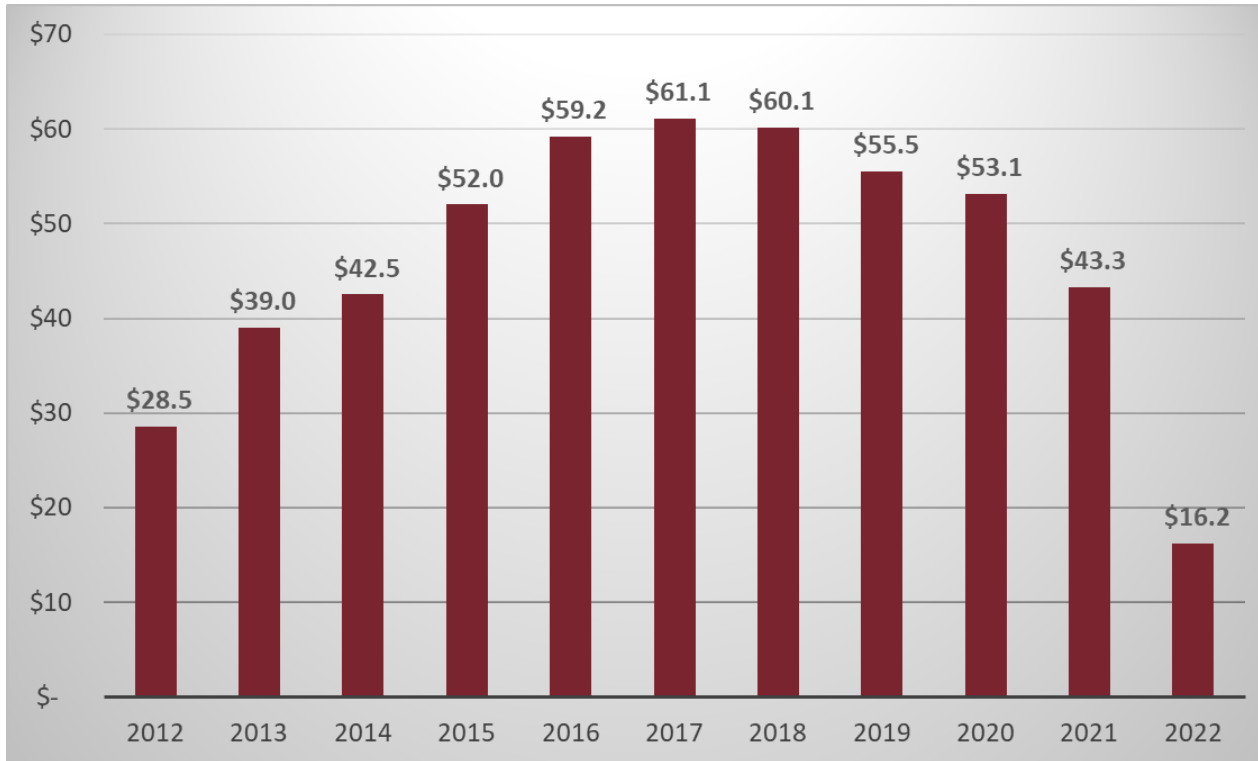


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Surplus

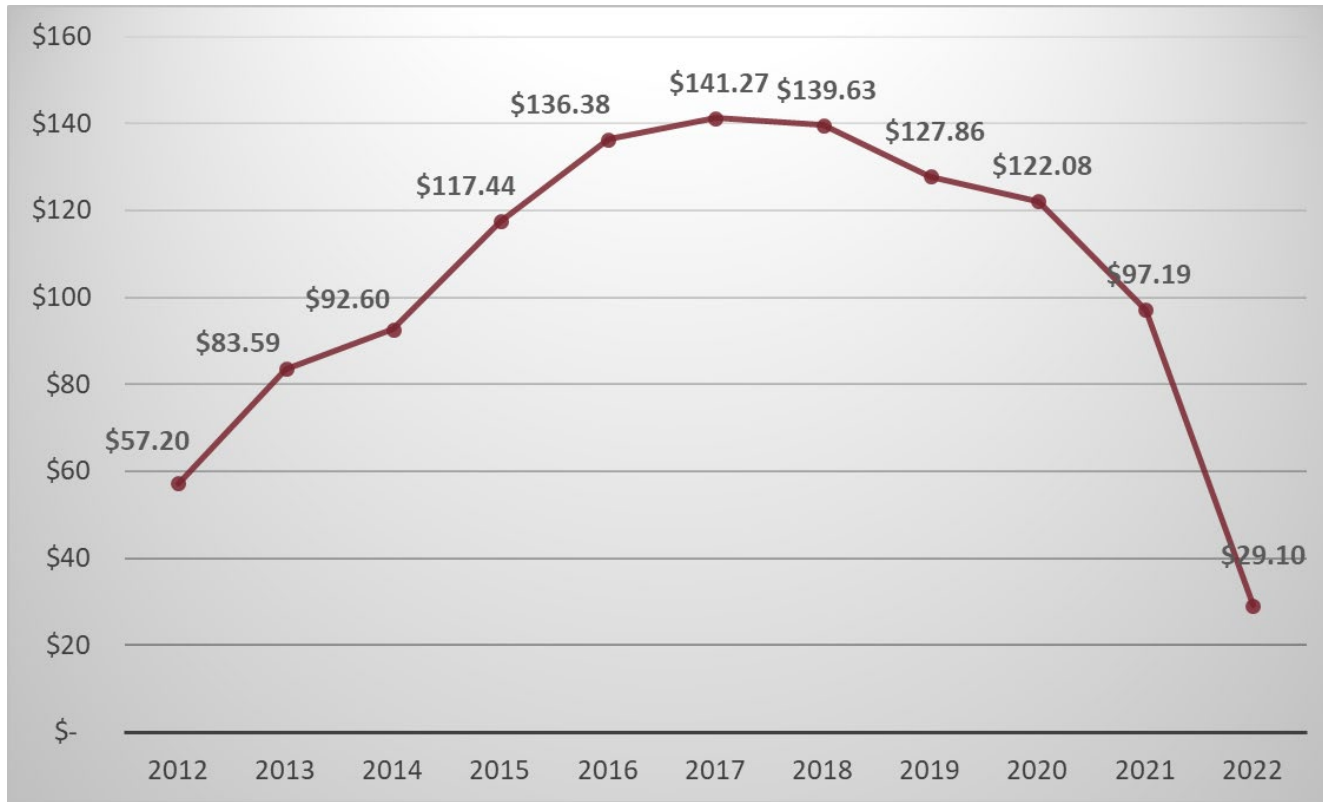
(In Millions)



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WRC Common Stock Price per Share (Unaudited)



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Reinsurance Option

- ▶ WRC creates a reinsurance pool for members
- ▶ 100% Quota Share reinsurance
- ▶ Policyholder rates based on exposure (TIV) for each member and a target loss ratio

Reinsurance Option - *continued*

▶ Exposure Analysis

- ▶ Sample mutuals had an aggregate loss ratio of almost 70% in 2022
- ▶ If their premium had been adequate, the loss ratio would have been below 60%
- ▶ Required primary rates, based on exposure, would be set to achieve profitability for each member



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Reinsurance Option - *continued*

▶ Rate adequacy of sample mutuals in 2022 (using exposure view and 60% LR target)

- 5** Were rate adequate
- 4** Were up to 10% deficient
- 9** Were 11-25% deficient
- 10** Were 26-145% deficient



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Reinsurance Option - *continued*

- ▶ Ceding commission back to mutual
- ▶ Minimum surplus and/or premium levels required to participate
- ▶ Mutual capital contribution required to support pool (surplus notes)



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Reinsurance Option - *continued*

- ▶ Members are assessable for loss above retrocessional coverage or above target loss ratio (subject to retro coverage)
 - ✓ Protects the pool
 - ✓ Encourages profitable underwriting
 - ✓ Distributes risk to all members



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Reinsurance Option - *continued*

- ▶ Profit commission available after 5-year period based on loss experience of each member and overall profitability of the pool
- ▶ Exit from pool may require a payment based on experience with the pool
 - ▶ If a member leaves, the member will be responsible to pay back to the pool 50% of its net negative results from the last 5 years



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Support from 1st Auto and WASI

- ▶ Direct lines support will only be available to members of the pool
 - ▶ Data shows mutual-supported business is approximately 4-6% better
- ▶ WASI will be available to handle claims for any member of the pool for a fee



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Merger Option

- ▶ WRC will be converted to a Mutual Insurer
- ▶ Companies that can't meet pool requirements of the Reinsurance Option or wish to merge for other reasons can merge into WRC and WRC becomes the direct writer



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Merger Option - *continued*

- ▶ WRC will place its direct business and the pool business with third party reinsurers, which will:
 - ✓ Reduce expenses (sample mutuals had an aggregate 39% expense ratio)
 - ✓ Ensure proper underwriting and rating
 - ✓ Provide claim services



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Options for Maintaining Compliance with Wisconsin Law for 2024

- ▶ Participation in the WRC Underwriting Pool (Reinsurance Option)
- ▶ Merger with and into WRC (Merger Option)
- ▶ Obtain alternative reinsurance coverage for 2024 that satisfies the requirements set forth in Wis. Stat. § 612.33 and Wis. Admin. Code Ins 13.09
- ▶ Merger with another town mutual insurer (providing the surviving company satisfies the requirements set forth in Wis. Stat. § 612.33 and Wis. Admin. Code Ins 13.09)



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Options for Maintaining Compliance with Wisconsin Law for 2024

- continued

- ▶ Merge with a domestic insurer authorized to conduct business under Wis. Stat. ch. 611 that has reinsurance coverage that is adequate to support its business operations
- ▶ Enter into voluntary dissolution in accordance with Wis. Stat § 612.25, or take other action allowed under Wisconsin law and approved by the Commissioner



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Timeline for Maintaining Compliance with Wisconsin Law for 2024

- ▶ An Order will be sent on June 28 requesting that all Wisconsin companies with WRC coverage in 2023 indicate what option they will select for 2024
- ▶ August 11, 2023 - Respond to OCI and communicate what option is selected
- ▶ September 1, 2023 – Present evidence of the selected option
- ▶ If a company does **not** select an option and present evidence by September 1, then OCI will take administrative action, which may include rehabilitation or liquidation



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