

Report of the Examination of
Policyholders Mutual Insurance Company
DeForest, Wisconsin
As of December 31, 2019

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April 1, 2021

Honorable Mark V. Afable
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:

POLICYHOLDERS MUTUAL INSURANCE COMPANY
DeForest, Wisconsin

and this report is respectfully submitted.

I. INTRODUCTION

The previous examination of Policyholders Mutual Insurance Company (PMIC or the company) was conducted in 2015 as of December 31, 2014. The current examination covered the intervening period ending December 31, 2019, and included a review of such subsequent transactions as deemed necessary to complete the examination.

All accounts and activities of PMIC were considered, and 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 PMIC's operations accorded a high priority by the examiner-in-charge when planning the examination. Special attention was given to the action taken by PMIC to satisfy the recommendations and comments made in the previous examination report.

The company is exempt from being audited by an independent public accounting firm pursuant to applicability limitations in s. Ins 50.02 (1), Wis. Adm. Code. An integral part of this compliance examination was the review of the independent accountant's compilation 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.

The company is exempt from a Statement of Actuarial Opinion as confirmed by a letter from the Commissioner's office dated February 14, 2011. Within that letter it was noted that PMIC meets the criteria for exemption from filing a Statement of Actuarial Opinion.

II. HISTORY AND PLAN OF OPERATION

The company was organized in 1988 as Policyholders Mutual Insurance Company. The company is currently authorized only in the state of Wisconsin to transact the business of insurance as an assessable mutual under ch. 611, Wis. Stat.

Prior to 1989, the predecessor to the company was the Policyholders' Protection Fund, which was established for the purpose of assuring that policyholders of a covered town mutual would not be subject to financial hardship in the event of its insolvency. Member companies paid a fee to participate in the fund and, in turn, the fund purchased insurance coverage to cover the insolvency of a member town mutual.

During 1988, the Wisconsin Association of Town Mutual Insurance Companies (WATMIC) sponsored the formation of the company. WATMIC changed its name to Wisconsin Association of Mutual Insurance Companies, Inc. (WAMIC) on March 29, 1993. The company's purpose is the same as the predecessor fund: to ensure that policyholders of the subscribing companies would not be subject to financial hardship in the event of the insolvency of a town mutual. The current board members of WAMIC also serve as directors for the company.

Wisconsin is the only state in which PMIC is currently licensed and writes business. A Wisconsin Mutual Policyholder Protection group insurance policy (group insurance policy) issued by PMIC to WAMIC on behalf of its town mutual policyholders (certificate holders) limits all assessments levied on town mutual members to 2% of the members' gross written premium for any calendar year.

Each Wisconsin assessable mutual is eligible to become a policyholder and member of PMIC upon two qualifications:

1. Being a member of WAMIC.
2. Payment of an annual membership fee.

Currently, all town mutual insurers are members of WAMIC and the company.

As a condition to making a claim, a participating mutual must first satisfy each of the following:

1. Be insolvent or about to become insolvent and an order to liquidate shall have been issued by a court of competent jurisdiction.

2. Notification to the company in writing as a NOTIFICATION OF INTENT TO MAKE A CLAIM.
3. Canceled all policies in accordance with s. 645.43 (1) (a), Wis. Stat.

In the event that the above conditions are met, the payment will be made provided that:

1. The company shall have no duty or liability with respect to any claim filed with the liquidator under s. 645.61, Wis. Stat., after the date for filing specified by the liquidator under s. 645.47 (2), Wis. Stat., unless the liquidator considers the claim to have been timely filed.
2. The company shall have no duty or liability with respect to any claim which otherwise would have been covered under the policy, but for which the liquidator does not cause the applicant to cooperate under Article 7 of the policy.
3. Upon payment of any claim, the company is subrogated to the claimant's full right of recovery against the mutual and, to the same extent the mutual would have been subrogated, against any liquidator and any third party. PMIC shall have no obligation with respect to any claim unless and until the liquidator notifies PMIC that, upon its payment of such claim, it will be entitled to receive its pro rata distribution of assets under s. 645.68 (3), Wis. Stat., with regard to such payment.

In the event the mutual has knowledge that it may be insolvent and may make a claim on this policy, the mutual or the liquidator shall, as soon as reasonably possible, notify the company and WAMIC in writing of its intent to make a claim hereunder. Under the terms of the group insurance policy, PMIC is responsible to pay all claims the insolvent town mutual is obliged to pay under its insurance policies. PMIC's limit of liability under the group policy is \$500,000 for any single risk and \$6,000,000 for all claims in any annual period. All town mutual companies covered by the group policy are required to pay all assessments levied by PMIC's board of directors, up to a limit of 2% of each member's annual gross written premium. PMIC has an Aggregate Excess of Loss Reinsurance agreement with Wisconsin Reinsurance Corporation, under which it retains \$175,000 and has a reinsurance coverage for \$5,825,000 in the aggregate for any calendar year. Assessments may be levied to pay claims or administrative expenses of the company.

The following table is a summary of the net insurance premiums written by PMIC in 2019.

The growth of PMIC is discussed in the “Financial Data” section of this report.

Line of Business	Direct Premium	Reinsurance Assumed	Reinsurance Ceded	Net Premium
Write-ins for other lines of business:				
Membership dues	<u>\$31,800</u>	<u>\$0</u>	<u>\$15,000</u>	<u>\$16,800</u>
Total All Lines	<u>\$31,800</u>	<u>\$0</u>	<u>\$15,000</u>	<u>\$16,800</u>

III. MANAGEMENT AND CONTROL

Board of Directors

The board of directors consists of eight members. Two or three directors are elected annually to serve a three-year term. Officers are elected at the board's annual meeting. The current board members of WAMIC also serve as directors for the company. The board members do not receive a per diem for meetings and they do not receive any reimbursement for travel expenses.

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

Name and Residence	Principal Occupation	Term Expires
Sonia DeBoer Brandon, Wisconsin	Manager of Columbus Mutual Town Insurance Company	2022
Scott Krum Stratford, Wisconsin	President/CEO of McMillan Warner Mutual Insurance Company	2021
Peggy Sue Langer Spring Green, Wisconsin	Manager of Franklin Farmers Mutual Insurance Company	2022
Adam Reed Janesville, Wisconsin	President/CEO of Sugar Creek Mutual Insurance Company	2022
Darren Reoh Oshkosh, Wisconsin	President/CEO of Homestead Mutual Insurance Company	2023
Paul Rosenow Cochrane, Wisconsin	Manager of River Valley Mutual Insurance Company	2023
Karen Smith Cameron, Wisconsin	Manager of Barron Mutual Insurance Company	2023
Lois Wiedenhoef Watertown, Wisconsin	President/CEO of Forward Mutual Insurance Company	2021

Officers of the Company

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

Name	Office
Scott Krum	Chairman
Paul Rosenow	Vice Chairman
Darren Reoh	Secretary-Treasurer
Patrick Laws	President

Committees of the Board

The company's bylaws allow for the formation of certain committees by the board of directors. As of the time of the current examination, PMIC had not established any committees of the board of directors other than an executive committee comprised of the board chair, vice chair, and secretary-treasurer. The executive committee does not formally meet but the members review quarterly and annual statements before signing.

Executive Committee

Scott Krum, Chair
Darren Reoh
Paul Rosenow

IV. AFFILIATED COMPANIES

The company is affiliated with WAMIC through common management and facilities. The company pays \$2,400 per year to WAMIC for staff, rental of facilities, and office supplies.

Wisconsin Association of Mutual Insurance Companies

WAMIC is an association of mutual insurance companies. WAMIC's principal objectives are to improve loss prevention programs, to promote adequate loss protection service, to sponsor legislation for the benefit of mutual insurance companies, and to promote the general welfare of mutual insurance companies. WAMIC offers classes for loss prevention, claim adjusting, forms education, and continuing education for agents.

Currently, WAMIC is a member of the American Association of Insurance Services (AAIS) and pays fees to AAIS for membership and program services. Members of WAMIC are allowed to use AAIS copyrighted forms and are provided access to other AAIS services. WAMIC is licensed by the state of Wisconsin to act as a rate service organization.

As of December 31, 2019, the compiled financial statement for WAMIC reported assets of \$311,671, liabilities of \$222,649, and capital and surplus of \$89,022. Operations for 2019 produced net income of \$23,141.

Agreements with Affiliates

PMIC maintains a management and services agreement with WAMIC. The agreement was executed on July 6, 2016. Pursuant to the agreement, WAMIC provides administrative and management services, billing, data processing, electronic and physical storage of records, and all other administrative services and office space necessary to the operations of an insurance company. Separately, PMIC shall pay the actual cost for and will retain an independent Certified Public Accountant for audit and other services.

The services agreement between PMIC and WAMIC provides that PMIC will reimburse WAMIC by paying a set administrative services fee on a quarterly basis. The fee is payable quarterly within 30 days of the end of each fiscal quarter. The fee will be reviewed annually by the Board of Directors of WAMIC and adjusted as necessary to reflect the value of the administrative services, operating expenses, and office space provided by WAMIC.

The agreement is continuous with respect to automatic annual renewals. The agreement can be terminated by either party by giving 30 days' written notice to the other party.

V. REINSURANCE

The company's reinsurance portfolio and strategy at the time of the examination are described below. PMIC entered into an Aggregate Excess of Loss reinsurance contract with Wisconsin Reinsurance Corporation. The contract contained proper insolvency provisions.

Nonaffiliated Ceding Contracts

1. Type:	Aggregate Excess of Loss
Reinsurer:	Wisconsin Reinsurance Corporation
Scope:	All liability business written by the company to cover WAMIC's members
Retention:	\$175,000
Coverage:	100% of aggregate losses in excess of \$175,000, up to \$5,825,000, each annual period, includes loss adjusting expenses.
Effective date:	January 1, 2018, continuous
Termination:	As of any January 1, by either party giving 90 days' prior written notice

The company's reinsurance contract changed significantly in 2018. PMIC continues to issue a group insurance policy to WAMIC, for and on behalf of its members, which provides insolvency coverage for all association members. Under the prior reinsurance contract, in the event that a loss was paid, the company was required to repay the loss to the reinsurers plus interest. With the prior arrangement, the company would eventually return all the reinsurance claim payments to the reinsurer through assessments levied on PMIC's policyholder members. This term was eliminated in the new reinsurance contract, effective in 2018. The retention for PMIC was also lowered from \$1,000,000 to \$175,000.

VI. FINANCIAL DATA

The following financial statements reflect the financial condition of PMIC as reported to the Commissioner of Insurance in the December 31, 2019, 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.

Policyholders Mutual Insurance Company
Assets
As of December 31, 2019

	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	\$208,819	\$	\$208,819
Stocks:			
Preferred stocks			
Common stocks	32,583		32,583
Cash, cash equivalents, and short-term investments	31,353		31,353
Investment income due and accrued	<u>1,445</u>	—	<u>1,445</u>
Total Assets	<u>\$274,200</u>	<u>\$</u>	<u>\$274,200</u>

Policyholders Mutual Insurance Company
Liabilities, Surplus, and Other Funds
As of December 31, 2019

Other expenses (excluding taxes, licenses, and fees)		\$ <u>600</u>
Total Liabilities		600
Gross paid in and contributed surplus	\$ 48,500	
Unassigned funds (surplus)	<u>225,100</u>	
Surplus as Regards Policyholders		<u>273,600</u>
Total Liabilities and Surplus		<u>\$274,200</u>

Policyholders Mutual Insurance Company
Summary of Operations
For the Year 2019

Underwriting Income		
Premiums earned		\$16,800
Deductions:		
Other underwriting expenses incurred	<u>19,158</u>	
Total underwriting deductions		<u>19,158</u>
Net underwriting gain (loss)		(2,358)
Investment Income		
Net investment income earned	<u>4,145</u>	
Net investment gain (loss)		4,145
Net income (loss) before dividends to policyholders and before federal and foreign income taxes		<u>1,787</u>
Net income (loss) after dividends to policyholders but before federal and foreign income taxes		<u>1,787</u>
Net Income (Loss)		<u>\$ 1,787</u>

Policyholders Mutual Insurance Company
Cash Flow
For the Year 2019

Premiums collected net of reinsurance		\$16,800
Net investment income		<u>3,556</u>
Total		20,356
Commissions, expenses paid, and aggregate write-ins for deductions	\$19,728	
Total deductions		<u>19,728</u>
Net cash from operations		628
Proceeds from investments sold, matured, or repaid:		
Bonds	\$25,000	
Total investment proceeds		25,000
Cost of investments acquired (long- term only):		
Bonds	41,062	
Total investments acquired		<u>41,062</u>
Net cash from investments		(16,062)
Cash from financing and miscellaneous sources:		
Net cash from financing and miscellaneous sources		<u>0</u>
Reconciliation:		
Net Change in Cash, Cash Equivalents, and Short-Term Investments		(15,434)
Cash, cash equivalents, and short-term investments:		
Beginning of year		<u>46,787</u>
End of Year		<u>\$31,353</u>

**Policyholders Mutual Insurance Company
Compulsory and Security Surplus Calculation
December 31, 2019**

Assets		\$274,200
Less liabilities		<u>600</u>
Adjusted surplus		273,600
Annual premium:		
Lines other than accident and health	\$16,800	
Factor	<u>20%</u>	
Compulsory surplus (subject to a minimum of \$100,000)		<u>100,000</u>
Compulsory Surplus Excess (Deficit)		<u>\$173,600</u>
Adjusted surplus (from above)		\$273,600
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>140,000</u>
Security Surplus Excess (Deficit)		<u>\$133,600</u>

**Policyholders Mutual Insurance Company
Analysis of Surplus
For the Five-Year Period Ending December 31, 2019**

The following schedule details items affecting surplus during the period under examination as reported by PMIC in its filed annual statements:

	2019	2018	2017	2016	2015
Surplus, beginning of year	\$272,061	\$278,565	\$282,312	\$271,353	\$253,914
Net income	1,787	(7,836)	(7,252)	6,888	15,599
Change in net unrealized capital gains/losses	<u>(248)</u>	<u>1,332</u>	<u>3,505</u>	<u>4,071</u>	<u>1,840</u>
Surplus, End of Year	<u>\$273,600</u>	<u>\$272,061</u>	<u>\$278,565</u>	<u>\$282,312</u>	<u>\$271,353</u>

**Policyholders Mutual Insurance Company
Insurance Regulatory Information System
For the Five-Year Period Ending December 31, 2019**

The company's NAIC Insurance Regulatory Information System (IRIS) results for the period under examination are summarized below. Unusual IRIS results are denoted with asterisks and discussed below the table.

Ratio	2019	2018	2017	2016	2015
#1 Gross Premium to Surplus	12%	10%	4%	10%	10%
#2 Net Premium to Surplus	6	4	2	8	8
#3 Change in Net Premiums Written	46*	98*	-74*	-2	51*
#4 Surplus Aid to Surplus	0	0	0	0	0
#5 Two-Year Overall Operating Ratio	121*	187*	101*	50	35
#6 Investment Yield	1.5*	1.3*	1.3*	1.8*	1.8*
#7 Gross Change in Surplus	1	-2	-1	4	7
#8 Change in Adjusted Surplus	1	-2	-1	4	7
#9 Liabilities to Liquid Assets	0	0	1	2	6
#10 Agents' Balances to Surplus	0	0	0	0	0
#11 One-Year Reserve Development to Surplus	0	0	0	0	0
#12 Two-Year Reserve Development to Surplus	0	0	0	0	0
#13 Estimated Current Reserve Deficiency to Surplus	0	0	0	0	0

The Change in Net Premium Written Ratio (IRIS ratio No. 3) measures the percentage change in net premium written from the prior year. The exceptional results in 2015, 2017, 2018, and

2019 were due to an increase or decrease in fees (which are in effect premium). Each increase or decrease was approved by the board.

The Two-Year Overall Operating Ratio (IRIS ratio No. 5) measures the company's profitability over the previous two-year period and was exceptional in 2017, 2018, and 2019. The exceptional results were caused by a combination of a shift in the base fee structure, where fees were lowered in 2017, and a change in the reinsurance contract which resulted in increased reinsurance rates.

The Investment Yield Ratio (IRIS ratio No. 6) measures the average return on the company's investments. The exceptional results in 2015 through 2019 were due to the low interest rate environment and the company's strategy of having a conservative portfolio consisting mainly of cash, short-term securities, and bonds.

Growth of Policyholders Mutual Insurance Company

Year	Admitted Assets	Liabilities	Surplus as Regards Policyholders	Net Income
2019	\$274,200	\$ 600	\$273,600	\$1,787
2018	273,231	1,170	272,061	(7,836)
2017	280,365	1,800	278,565	(7,252)
2016	289,512	7,200	282,312	6,888
2015	287,353	16,000	271,353	15,599
2014	271,914	18,000	253,914	9,009

Year	Gross Premium Written	Net Premium Written	Premium Earned	Loss and LAE Ratio*	Expense Ratio	Combined Ratio
2019	\$31,800	\$16,800	\$16,800	0.0%	114.0%	114.0%
2018	26,500	11,500	11,500	0.0	198.3	198.3
2017	10,800	5,800	5,800	0.0	290.6	290.6
2016	27,000	22,000	22,000	0.0	91.5	91.5
2015	27,500	22,500	22,500	0.0	52.2	52.2
2014	19,950	14,950	14,950	0.0	76.2	76.2

* The company has never incurred a claim and therefore holds no loss reserves.

During the five-year period under examination, the company's admitted assets increased 1%, liabilities decreased 97%, and surplus increased by 8%. Net premiums written increased 12%. The company's admitted assets consisted of bonds, common stocks, cash, and investment income due and

accrued. For 2017 and 2018 changes were made to policyholder member fees and reinsurance coverage for PMIC.

The policyholder fees (which are in effect premium) were temporarily lowered in 2017 where gross premiums decreased by 60%. In the five years prior to 2017, there had been net income and positive cash flows from operations. In 2018, fees were adjusted upwards again. The increase in fees in 2018 was required due to the significant increase in reinsurance structure and coverages which caused reinsurance expense to nearly triple. This increase in reinsurance expense has resulted in elevated expense ratios. By 2019, the policyholder fees plus earned investment income again covered the operational expenses.

The company has never incurred a claim because none of its policyholder members have been liquidated since the company began.

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, 2019, is accepted.

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 PMIC are as follows:

1. **Affiliated Transactions**—It is recommended that the company place the administrative agreement with WAMIC in writing as required by SSAP No. 25, and submit the written, signed agreement to the Office of the Commissioner of Insurance for non-disapproval as specified in s. Ins 40.04 (2) (d), Wis. Adm. Code.

Action—Compliance.

2. **Cash and Short-Term Investments**—It is recommended that the company classify its investments in long-term certificates of deposit in accordance with SSAP No. 26 in all future financial statements.

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.

Conflict of Interest

In accordance with a directive of the Commissioner of Insurance, each company is required to establish a procedure for the disclosure to its board of directors of any material interest or affiliation on the part of its officers, directors, or key employees which conflicts or is likely to conflict with the official duties of such person. A part of this procedure is the annual completion of a conflict-of-interest questionnaire by the appropriate persons. PMIC has adopted such a procedure for disclosing potential conflicts of interest. The examiners requested copies of these forms for all years under examination from 2015 through 2019. Conflict-of-interest questionnaires were reviewed with no apparent conflicts being noted. However, the company did not provide the forms for years 2016 or 2017. It is recommended that the company formally establish a procedure for its completion and retention of conflict-of-interest questionnaires on an annual basis as required by the directives of the Commissioner of Insurance.

VIII. CONCLUSION

The company was organized in 1988 as Policyholders Mutual Insurance Company. The company is currently authorized only in the state of Wisconsin to transact the business of insurance as an assessable mutual under ch. 611, Wis. Stat. The company has a stop-loss agreement with Wisconsin Reinsurance Corporation. A Wisconsin Mutual Policyholder Protection group insurance policy issued by PMIC to WAMIC on behalf of its town mutual policyholders limits all assessments levied on town mutual members to 2% of the members' gross written premium for any calendar year.

During the five-year period under examination, the company's admitted assets increased 1%, net premiums written increased 12%, and surplus increased by 8%. The company's admitted assets consisted of bonds, common stocks, cash, and investment income due and accrued.

The company has never incurred a claim because none of its participating companies have been liquidated since the company began.

The examination resulted in one recommendation, where conflict-of-interest forms were not provided to examiners for all years under review. No adjustments to surplus were made.

IX. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 22 - Conflict of Interest— It is recommended that the company formally establish a procedure for its completion and retention of conflict-of-interest questionnaires on an annual basis as required by the directives of the Commissioner of Insurance.

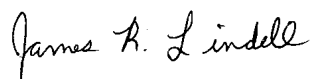
X. ACKNOWLEDGMENT

The courtesy and cooperation extended during the course of the examination by the officers and employees of the 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
Eleanor Lu, CISA	IT Specialist
John Litweiler, AFE	Examination Oversight Supervisor

Respectfully submitted,



James Lindell
Examiner-in-Charge

XI. SUBSEQUENT EVENTS

On March 11, 2020, the World Health Organization declared coronavirus disease (COVID-19) a pandemic. As of the date of this report, there is still significant uncertainty remaining on the effects that the pandemic will have on the company, insurance industry, and economy at large. The examination's review of the impact to the company through the date of this report noted that there has not been a significant impact to the company overall; however, due to the various uncertainties with the pandemic, it is unclear whether this will continue to have a minimal impact to the company or if it will escalate. The Office of the Commissioner of Insurance continues to closely monitor the impact of the pandemic on the company.