

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

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August 21, 2023

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 LAWYERS MUTUAL INSURANCE COMPANY
Madison, Wisconsin

and this report is respectfully submitted.

I. INTRODUCTION

The previous examination of Wisconsin Lawyers Mutual Insurance Company (hereinafter “WILMIC” 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. 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 concerning the alternative or additional examination steps performed during 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 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 2022, direct premium written totaled \$4,495,898. The company exclusively writes professional errors and omissions liability policies for attorneys (primarily on a claims-made basis), 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 and a small number of independent agents.

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 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 | \$ 251,179 | \$0 | \$73,021 | \$178,158 |
| Other liability – claims made | <u>4,244,719</u> | <u>0</u> | <u>941,130</u> | <u>3,303,589</u> |
| Total All Lines | <u>\$4,495,898</u> | <u>\$0</u> | <u>\$1,014,151</u> | <u>\$3,481,747</u> |

III. MANAGEMENT AND CONTROL

Board of Directors

The board is comprised of 13 elected directors who hold three-year terms with a limit of four terms. In addition to the 13 elected directors, there are two additional directors: (1) the former Executive Director of the State Bar of Wisconsin was appointed to the board in 2009 and will serve until June 2, 2023, they will then take an elected seat vacated by a director who has reached their term limits, and (2) the President of Wisconsin Lawyers Mutual Insurance Company will have the right to serve, ex officio, as a regular member of the board as long as they hold office. In addition to the board members, there is a Young Lawyers Division Liaison who is there to observe and offer a young lawyer's perspective on issues. Board members currently receive the following compensation for attendance at board meetings: \$1,300 for in-person attendance, \$1,000 for visual electronic attendance, and \$700 for voice-only electronic attendance.

Currently, the board of directors consists of the following persons (there is currently one vacancy on the board that will be filled effective September 8th, 2023):

| Name | Principal Occupation | Term Expires |
|---|---|---------------------|
| Richard Orton, Chairman <i>Milwaukee, WI</i> | Attorney | 2023 |
| Brian Braziel <i>Eau Claire, WI</i> | Attorney | 2025 |
| George Brown <i>Madison, WI</i> | Former Exec. Director at State Bar of Wisconsin | 2023 |
| Kristine Burck <i>Madison, WI</i> | General Counsel | 2023 |
| Maureen Easton <i>Madison, WI</i> | Attorney | 2024 |
| Alan Hougum <i>Wausau, WI</i> | Attorney | 2025 |
| Andrew Martinez <i>Baraboo, WI</i> | Attorney | 2025 |
| Thomas Mews <i>New Richmond, WI</i> | President of FNC Bank | 2024 |
| Anne Norman | Senior VP & Chief Marketing Officer | 2024 |

| Name | Principal Occupation | Term Expires |
|---|----------------------------------|---------------------|
| <i>Madison, WI</i> | | |
| Margaret Raymond <i>Madison, WI</i> | Law Professor/Formal Dean | 2024 |
| Ariella Schreiber <i>Madison, WI</i> | Vice President & General Counsel | 2025 |
| Thomas Schumacher <i>Baldwin, WI</i> | Attorney | 2023 |
| Marna Tess-Mattner <i>Brookfield, WI</i> | Attorney | 2023 |
| Thomas Watson <i>Madison, WI</i> | President & CEO | None |
| Young Lawyers Division Liaison Jose Castro <i>Denver, CO</i> | Attorney | 2023 |

Officers of the Company

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

| Name | Office |
|-----------------|---------------|
| Thomas Watson | President |
| Patricia Lehner | Treasurer |
| Matthew Beier | Secretary |

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:

Executive Committee

Richard Orton, Chair
George Brown
Kristine Burck
Thomas Mews
Margaret Raymond
Thomas Schumacher
Marna Tess-Mattner
Thomas Watson

Audit Committee

Ariella Schreiber, Chair
Anne Norman
Alan Hougum
Maureen Easton
Kristine Burck
Brian Braziel

Long Range Planning Committee

George Brown, Chair
Brian Braziel
Andrew Martinez

Governance Committee

Marna Tess-Mattner, Chair
Kristine Burck
Maureen Easton

Anne Norman
Richard Orton
Ariella Schreiber
Thomas Schumacher
Thomas Watson

CEO Compensation Committee

Marna Tess-Mattner, Chair
George Brown
Ariella Schreiber

Richard Orton
Andrew Martinez
Margaret Raymond
Thomas Schumacher

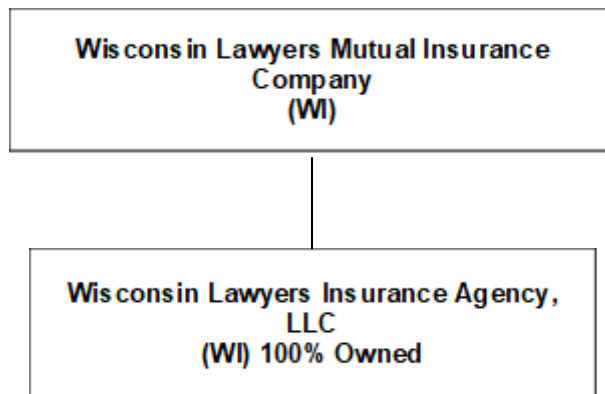
Investment Committee

Thomas Mews, Chair
Alan Hougum
Anne Norman
Thomas Watson

IV. 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, 2022



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, 2022, this investment was valued at \$42,961, 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 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 contained proper insolvency provisions.

Nonaffiliated Ceding Contracts

1. Type: First Excess of Loss

Reinsurer: 20.00% WILMIC Co-Participation
3.50 The TOA Reinsurance Company of America
9.00 Hannover Ruck SE
25.00 Lawyers Mutual Liability Insurance Company
4.00 Aspen Bermuda Limited
4.50 Convex Insurance UK Limited
8.50 XL Re Europe SE
25.50 Lloyd's of London - Syndicates
100.00% Total

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

Retention: \$250,000 each insured each claim

Coverage: \$500,000 each insured each claim in excess of company retention plus their proportionate share of any applicable loss adjustment expense

Effective date: January 1, 2023

Termination: January 1, 2024
2. Type: Excess of loss

Reinsured: 9.25% Berkley Insurance Company
8.75 The TOA Reinsurance Company of America
12.00 Hannover Ruck SE
4.00 Aspen Bermuda Limited
7.25 Convex Insurance UK Limited
16.50 XL Re Europe SE
42.25 Lloyd's of London - Syndicates
100.00% Total

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

Retention: \$750,000 each insured each claim

Coverage: \$4,250,000 each insured each claim in excess of company retention plus their proportionate share of any applicable loss adjustment expense, and any extra contractual obligations and/or excess limits liability arising from the same claim up to an additional \$4,250,000 each insured each claim after recovery has been exhausted

Effective date: January 1, 2023

Termination: January 1, 2024

3. Type: Casualty Excess

Reinsured

| | |
|----------------|--------------------------------|
| 9.00% | Aspen Bermuda Limited |
| 5.94 | Convex Insurance UK Limited |
| 10.00 | XL Re Europe SE |
| <u>75.06</u> | Lloyd's of London - Syndicates |
| <u>100.00%</u> | Total |

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

Retention: \$5,000,000 each and every claim and in the aggregate, each policy covered

Coverage: \$5,000,000 each insured each claim in excess of company retention plus their proportionate share of any applicable loss adjustment expense, and any extra contractual obligations and/or excess limits liability arising from the same claim up to an additional \$5,000,000 each insured each claim after recovery has been exhausted

Option to increase the aggregate amount applicable to the retention and limit to \$10,000,000 for each policy covered.

Commissions: Flat ceding commission of 15% on premium ceded

Effective date: January 1, 2023

Termination: January 1, 2024

4. Type: Casualty Excess

Reinsured:

| | |
|----------------|--------------------------------|
| 11.00% | Aspen Bermuda Limited |
| 5.94 | Convex Insurance UK Limited |
| 12.00 | XL Re Europe SE |
| <u>71.06</u> | Lloyd's of London - Syndicates |
| <u>100.00%</u> | Total |

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

Retention: \$10,000,000 each and every claim and in the aggregate, each policy covered

Coverage: \$10,000,000 each insured each claim in excess of company retention plus their proportionate share of any applicable loss adjustment expense, and any extra contractual obligations and/or excess limits liability arising from the same claim up to an additional \$10,000,000 each insured each claim after recovery has been exhausted

Option to increase the aggregate amount applicable to the retention and limit to \$20,000,000 for each policy covered.

Commissions: Flat ceding commission of 10% on premium ceded

Effective date: January 1, 2023

Termination: January 1, 2024

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 Lawyers Mutual Insurance Company
Assets
As of December 31, 2022

| | Assets | Nonadmitted Assets | Net Admitted Assets |
|---|----------------------------|-------------------------------|------------------------------------|
| Bonds | \$28,666,098 | \$ | \$28,666,098 |
| Stocks: | | | |
| Preferred stocks | 45,925 | | 45,925 |
| Common stocks | 5,636,839 | | 5,636,839 |
| Cash, cash equivalents, and short-term investments | 1,175,411 | | 1,175,411 |
| Other invested assets | 42,961 | 42,961 | |
| Investment income due and accrued | 168,200 | | 168,200 |
| Premiums and considerations: | | | |
| Deferred premiums, agents' balances, and installments booked but deferred and not yet due | 416,379 | | 416,379 |
| Reinsurance: | | | |
| Amounts recoverable from reinsurers | 6,456 | | 6,456 |
| Other amounts receivable under reinsurance contracts | 165,303 | | 165,303 |
| Current federal and foreign income tax recoverable and interest thereon | 125,000 | | 125,000 |
| Net deferred tax asset | 165,300 | | 165,300 |
| Electronic data processing equipment and software | 9,928 | 6,997 | 2,931 |
| Furniture and equipment, including health care delivery assets | 908 | 908 | |
| Write-ins for other than invested assets: | | | |
| Due from Insured – deductible | 19,440 | 10,600 | 8,840 |
| Security Deposit | 6,341 | 6,341 | |
| Prepaid expenses | 30,321 | 30,321 | |
| Remaining write-ins from overflow page | <u>58,600</u> | <u> </u> | <u>58,600</u> |
| Total Assets | <u>\$36,739,410</u> | <u>\$98,128</u> | <u>\$36,641,282</u> |

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

| | | |
|--|---------------------|----------------------------|
| Losses | | \$ 3,404,826 |
| Loss adjustment expenses | | 3,034,639 |
| Commissions payable, contingent commissions, and other similar charges | | 758 |
| Other expenses (excluding taxes, licenses, and fees) | | 97,814 |
| Taxes, licenses, and fees (excluding federal and foreign income taxes) | | 10,000 |
| Unearned premiums | | 1,459,851 |
| Advance premium | | 277,962 |
| Dividends declared and unpaid: | | |
| Policyholders | | 64,047 |
| Ceded reinsurance premiums payable (net of ceding commissions) | | 934,431 |
| Funds held by company under reinsurance treaties | | 0 |
| Amounts withheld or retained by company for account of others | | 818,999 |
| Provision for reinsurance | | <u>44,000</u> |
| Total Liabilities | | 10,147,327 |
| Unassigned funds (surplus) | <u>\$26,493,955</u> | |
| Surplus as Regards Policyholders | | <u>26,493,955</u> |
| Total Liabilities and Surplus | | <u>\$36,641,282</u> |

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

| | | |
|--|------------------|-------------------|
| Underwriting Income | | |
| Premiums earned | | \$3,444,021 |
| Deductions: | | |
| Losses incurred | \$ 508,228 | |
| Loss adjustment expenses incurred | 1,769,550 | |
| Other underwriting expenses incurred | <u>1,634,398</u> | |
| Total underwriting deductions | | <u>3,912,176</u> |
| Net underwriting gain (loss) | | (468,155) |
| Investment Income | | |
| Net investment income earned | 347,134 | |
| Net realized capital gains (losses) | <u>735,104</u> | |
| Net investment gain (loss) | | 1,082,238 |
| Other Income | | |
| Finance and service charges not included in premiums | 31,241 | |
| Write-ins for miscellaneous income: | | |
| Miscellaneous Income | <u>6,915</u> | |
| Total other income | | <u>38,156</u> |
| Net income (loss) before dividends to policyholders and before federal and foreign income taxes | | 652,239 |
| Dividends to policyholders | | <u>250,897</u> |
| Net income (loss) after dividends to policyholders but before federal and foreign income taxes | | 401,342 |
| Federal and foreign income taxes incurred | | <u>(118,207)</u> |
| Net Income (Loss) | | <u>\$ 519,549</u> |

Wisconsin Lawyers Mutual Insurance Company
Cash Flow
For the Year 2022

| | | |
|--|------------------|--------------------|
| Premiums collected net of reinsurance | | \$3,110,756 |
| Net investment income | | 680,393 |
| Miscellaneous income | | <u>38,156</u> |
| Total | | 3,829,305 |
| Benefit- and loss-related payments | \$1,228,874 | |
| Commissions, expenses paid, and aggregate write-ins for deductions | 3,380,354 | |
| Dividends paid to policyholders | 241,229 | |
| Federal and foreign income taxes paid (recovered) | <u>98,001</u> | |
| Total deductions | | <u>4,948,458</u> |
| Net cash from operations | | (1,119,153) |
| Proceeds from investments sold, matured, or repaid: | | |
| Bonds | \$8,516,524 | |
| Stocks | 2,161,032 | |
| Net gains (losses) on cash, cash equivalents, and short-term investments | <u>21,874</u> | |
| Total investment proceeds | 10,699,431 | |
| Cost of investments acquired (long- term only): | | |
| Bonds | 8,845,530 | |
| Stocks | 436,285 | |
| Miscellaneous applications | <u>1,813</u> | |
| Total investments acquired | <u>9,283,628</u> | |
| Net cash from investments | | 1,415,803 |
| Cash from financing and miscellaneous sources: | | |
| Other cash provided (applied) | <u>(93,694)</u> | |
| Net cash from financing and miscellaneous sources | | <u>(93,694)</u> |
| Reconciliation: | | |
| Net Change in Cash, Cash Equivalents, and Short-Term Investments | | |
| | | 202,956 |
| Cash, cash equivalents, and short-term investments: | | |
| Beginning of year | | <u>972,455</u> |
| End of Year | | <u>\$1,175,411</u> |

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

| | | |
|--|-------------|---------------------|
| Assets | | \$36,641,282 |
| Less liabilities | | <u>10,147,327</u> |
| Adjusted surplus | | 26,493,955 |
| Annual premium: | | |
| Lines other than accident and health | \$3,580,850 | |
| Factor | <u>20%</u> | |
| Compulsory surplus (subject to a minimum of \$2 million) | | <u>2,000,000</u> |
| Compulsory Surplus Excess (Deficit) | | <u>\$24,493,955</u> |
| Adjusted surplus (from above) | | \$26,493,955 |
| 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>\$23,693,955</u> |

**Wisconsin 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 | \$27,945,714 | \$ 26,943,380 | \$ 26,346,407 | \$ 24,775,274 | \$ 24,456,363 |
| Net income | 519,549 | 573,191 | 347,348 | 354,545 | 896,472 |
| Change in net unrealized capital gains/losses | (2,063,142) | 475,922 | 221,303 | 1,208,214 | (571,295) |
| Change in net deferred income tax | (59,030) | 50,410 | 76,827 | 56,171 | (12,864) |
| Change in nonadmitted assets | 86,864 | 8,811 | (48,505) | (47,797) | 6,598 |
| Change in provision for reinsurance | <u>64,000</u> | <u>(106,000)</u> | <u> </u> | <u> </u> | <u> </u> |
| Surplus, End of Year | <u>\$ 26,493,955</u> | <u>\$ 27,945,714</u> | <u>\$ 26,943,380</u> | <u>\$ 26,346,407</u> | <u>\$ 24,775,274</u> |

Growth of Wisconsin Mutual Insurance Company

| Year | Admitted Assets | Liabilities | Surplus as Regards Policyholders | Net Income |
|------|-----------------|---------------|----------------------------------|------------|
| 2022 | \$ 36,641,282 | \$ 10,147,327 | \$ 26,493,995 | \$ 519,549 |
| 2021 | 39,481,959 | 11,536,245 | 27,945,714 | 573,191 |
| 2020 | 37,861,661 | 10,918,281 | 26,943,380 | 347,348 |
| 2019 | 36,180,743 | 9,834,336 | 26,346,407 | 354,545 |
| 2018 | 34,468,385 | 9,693,111 | 24,775,274 | 896,472 |
| 2017 | 34,755,758 | 10,299,395 | 24,456,363 | 911,015 |

| Year | Gross Premium Written | Net Premium Written | Premium Earned | Loss and LAE Ratio | Expense Ratio | Combined Ratio |
|------|-----------------------|---------------------|----------------|--------------------|---------------|----------------|
| 2022 | \$ 4,495,898 | \$ 3,481,747 | \$ 3,444,021 | 66.1% | 45.8% | 111.9% |
| 2021 | 4,519,989 | 3,723,740 | 3,818,557 | 82.1 | 51.1 | 133.2 |
| 2020 | 4,603,817 | 3,497,999 | 3,509,205 | 92.3 | 41.7 | 134.0 |
| 2019 | 4,764,152 | 3,825,883 | 3,849,177 | 66.0 | 38.7 | 104.7 |
| 2018 | 4,891,105 | 3,746,123 | 3,889,146 | 41.3 | 47.8 | 89.1 |
| 2017 | 5,188,806 | 3,935,851 | 4,007,157 | 55.6 | 43.2 | 98.8 |

The company has historically been stable and has posted consistent net income year after year. The company's expense ratio is higher than industry average (which has been below 30%), due to

the company's small size. The decrease in the company's combined ratio during the past year was due a lower Pure Net Loss Ratio (down 17.8 points from 2021) and slightly higher Pure Net LAE Ratio (up 0.9 points from 2021).

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.

Examination Reclassifications

No reclassifications were made as a result of the examination.

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. Committee Charter and Bylaws—It is recommended that the company comply with its Governance Committee charter and bylaws in regard to the frequency and intervals with which board and committee meetings take place.

Action—Compliance.

2. 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.

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.

Disaster Recovery Testing

It was noted that the company has not performed formal disaster recovery (DR) testing. Disaster recovery testing is critical to the business as it will help identify areas of the DR plan that may be weak. It will also help people become familiar with the process in the event that the DR plan must be invoked. It is recommended that the company perform formal annual DR testing utilizing their new IT partners. Documentation of the DR testing should be reviewed for lessons learned and be retained for future reference.

VIII. CONCLUSION

The company has historically been stable and has posted consistent net income year after year. The company's expense ratio is higher than the industry average (which has been below 30%), due to the company's small size. The decrease in the company's combined ratio during the past year was due to a lower Pure Net Loss Ratio (down 17.8 points from 2021) and a slightly higher Pure Net LAE Ratio (up 0.9 points from 2021).

IX. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 22 - Disaster Recovery Testing--It is recommended that the Company perform formal annual disaster recovery (DR) testing utilizing their new IT partners. Documentation of the DR testing should be reviewed for lessons learned and be retained for future reference.

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 |
|---------------------|------------------------------|
| Cole Besteman | Insurance Financial Examiner |
| Adam Donovan, CISSP | IT Specialist |
| Kongmeng Yang | Quality Control Specialist |
| Jerry DeArmond, CFE | Reserve Specialist |

Respectfully submitted,



Joshua Daggett
Examiner-in-Charge