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DANE COUNTY, WI
2023CV001310

STATE OF WISCONSIN : CIRCUIT COURT : DANE COUNTY
BRANCH 15

In the Matter of the Rehabilitation of:

Case No. 2023CV1310

Wisconsin Reinsurance Corporation and 1st Auto &
Casualty Insurance Company
c/o: Office of the Commissioner of Insurance
125 South Webster Street
Madison, WI 53703

Case Code: 30703

REHABILITATION PLAN

NATHAN HOUDEK, Commissioner of Insurance of the State of Wisconsin, as Rehabilitator of Wisconsin Reinsurance Corporation and 1st Auto & Casualty Insurance Company (the “Commissioner” or the “Rehabilitator”), by his undersigned attorneys, pursuant to Wis. Stat. § 645.33, chapter 645, in general, and all other applicable laws, proposes the following Rehabilitation Plan (the “Plan”) for Wisconsin Reinsurance Corporation (“WRC”) and 1st Auto & Casualty Insurance Company (“1st Auto” and, collectively, the “Companies”), which is effective as of the date approved by this Court (the “Effective Date”):

INTRODUCTION

This Plan provides for the rehabilitation of WRC and 1st Auto. The Rehabilitator continues to believe that WRC and 1st Auto can be successfully rehabilitated while limiting disruption or adverse impacts on policyholders, creditors, or the public.

WRC is a Wisconsin domestic, stock, property and casualty insurance company licensed in Wisconsin and Iowa and is recognized as an authorized reinsurer in South Dakota, North Dakota, Missouri, Illinois, and Arkansas. WRC’s primary business is the reinsurance of property and nonproperty liability risks written on a direct basis by small mutual insurance

companies. WRC's lines of business include fire and allied lines, homeowners, farm owners, commercial property and liability, personal umbrella properties, and earthquake.

1st Auto is a Wisconsin domiciled property and casualty insurance company and a subsidiary of WRC. 1st Auto is licensed in Wisconsin, South Dakota, Arkansas, Iowa, Illinois, and Missouri. 1st Auto's primary business includes private passenger automobile liability and physical damage insurance, personal and farm umbrella and liability insurance, and commercial automobile liability and commercial automobile physical damage insurance. 1st Auto's products are primarily marketed to policyholders of town mutual insurers that are reinsured by WRC.

Together, WRC and 1st Auto are integral to the functioning of the town mutual insurance companies organized under Wis. Stat. ch. 612, to which WRC issues reinsurance coverage and to whose policyholders 1st Auto provides automobile and other coverage. To date, WRC and the Rehabilitator have considered numerous proposals from investors or potential acquirors of the Companies; none have proven to provide a viable solution consistent with the goals of the Rehabilitation, as outlined below. Because of WRC's systemic importance to the mutual insurance industry in Wisconsin, particularly in the rural areas and small municipalities where town mutuals operate, the Rehabilitator now seeks approval from the Court to proceed with all haste in implementing the Plan.

GOALS OF REHABILITATION PLAN

This Plan of Rehabilitation is intended to reform and revitalize WRC and 1st Auto through changes to each company's organizational structure and business plans, while limiting the overall disruption to the chapter 612 town mutuals that rely on the Companies. The Rehabilitator believes that the Plan can accomplish the following goals:

(1) *Reform and revitalize WRC while avoiding the need to liquidate the company.* As described in more detail in Article IV, WRC will:

- a. Reposition from a reinsurer of chapter 612 town mutuals and other mutual companies to a direct writer of insurance policies. WRC will convert to a mutual insurance company (i.e., “re-mutualize”) and pursue mergers with other Wisconsin town mutual insurance companies. Town mutuals not otherwise able to secure statutorily required reinsurance for calendar year 2024 may merge into the re-mutualized WRC.
- b. Administer a reinsurance pool aggregating the risk of those town mutuals that elect to participate.

(2) *Reform and revitalize 1st Auto to ensure 1st Auto’s continued role in the Wisconsin market.* 1st Auto serves an important role in the Wisconsin market by providing auto insurance and other coverage options to the policyholders of chapter 612 town mutuals. As described in more detail in Article V, the Rehabilitator will pursue a variety of actions to improve the financial position of 1st Auto, including narrowing 1st Auto’s focus to only those policyholders of insurers participating in the reinsurance pool, improving underwriting, and rate increases.

(3) *Limit disruption to WRC’s policyholders (i.e., chapter 611 and chapter 612 mutual insurance companies) with a goal of avoiding insolvency proceedings for existing Wisconsin mutuals.* WRC will no longer individually reinsure town mutuals. Without statutorily mandated reinsurance coverage available from WRC in calendar year 2024, the 34 town mutuals currently reinsured by WRC will be at risk of no longer maintaining their certificates of authority and potentially being subject to insolvency proceedings

under chapter 645. To further limit disruption to the broader Wisconsin mutual market and potential insolvency proceedings involving WRC's town mutual reinsurance policyholders, the Commissioner will proactively communicate to those town mutuals regarding their options for maintaining their certificates of authority and compliance with Wisconsin law for calendar year 2024.

Article I. REHABILITATION PROCEEDINGS

1.01 The Commissioner petitioned this Court for an Order for Rehabilitation on May 23, 2023. Following notice to interested parties, the Court received no objections to the Petition. Accordingly, on June 21, 2023, the Court entered the Rehabilitation Order, placing WRC and 1st Auto into rehabilitation and appointing the Commissioner as Rehabilitator of the Companies.

Article II. POWERS AND DUTIES OF THE REHABILITATOR

2.01 *The Rehabilitator.* The Rehabilitator shall continue to exercise all powers granted under the Order for Rehabilitation. The Rehabilitator shall have the full powers and authority granted pursuant to Wis. Stat. §§ 645.33 to 645.35 and all other applicable laws as are reasonable and necessary to fulfill the duties and responsibilities under the Rehabilitation Order and this Plan including, but not limited to, the power and authority to interpret the terms and conditions of this Plan in order to carry out the purposes and effects of this Plan.

2.02 *The Special Deputy Commissioner.* The Special Deputy Commissioner and any successor appointed by the Rehabilitator pursuant to Wis. Stat. § 645.33, for the purposes of carrying out the rehabilitation, shall have all of the powers of the Rehabilitator under Wis. Stat. §§ 645.33 to 645.35 and all other applicable laws as are reasonable and necessary to fulfill such duties and responsibilities as are set forth in the Rehabilitation Order and this Plan.

2.03 *Exclusive Authority and Delegated Responsibilities.* The Rehabilitator and Special Deputy Commissioner shall retain the exclusive authority to operate the company under the full power authorized by Wis. Stat. § 645.33(2). All day-to-day management of WRC and 1st Auto shall be vested in the Rehabilitator and Special Deputy Commissioner. The Companies' management and employees may act on behalf of WRC and 1st Auto as Delegees of the Rehabilitator only pursuant to the expressly granted permission or delegated authority, and continued oversight of, the Rehabilitator or the Special Deputy Commissioner.

2.04 *Administration of the Plan.* The Rehabilitator and Special Deputy Commissioner shall perform those responsibilities, duties, and obligations set forth in this Plan on behalf of the Companies. To the extent that the manner of performance is not specified in this Plan, the Rehabilitator and Special Deputy Commissioner shall have the discretion to carry out and perform all other obligations or duties imposed on them by this Plan or by law in any manner they so choose, as long as such performance is consistent with the purposes and effects of this Plan, as determined by the Rehabilitator in his sole and absolute discretion.

2.05 *Quarterly Updates to the Court.* The Rehabilitator will submit to this Court quarterly updates regarding the Companies' financial positions, the status of the Rehabilitation, and the progress of the Plan.

2.06 *Quarterly Regulatory Filings.* The Companies will submit quarterly regulatory filings presented on a statutory basis of accounting in accordance with the Statements of Statutory Accounting Principles.

2.07 *Communications with Regulators.* The Rehabilitator will continue communications with insurance regulatory departments in the various jurisdictions in which the Companies maintain a certificate of authority.

2.08 *Guaranty Funds.* The Rehabilitator may communicate with the Wisconsin Insurance Security Fund, guaranty funds in the states in which the Companies are licensed, and the National Conference of Insurance Guaranty Funds (“NCIGF”), the entity monitoring the status of the Rehabilitation on behalf of state guaranty funds, to consider whether the Rehabilitation remains practicable and the effects of a liquidation on state guaranty funds and the Companies’ policyholders, creditors, and the public.

Article III. FINANCIAL POSITION OF THE COMPANIES

3.01 As of December 31, 2022, WRC reported assets of \$63,756,054, liabilities of \$41,455,399, and a surplus of \$22,300,655. During 2022, WRC’s surplus declined \$21,011,955, or 48.5%. However, after the issuance of the December 31, 2022 financial statements, WRC’s auditors issued a Notification of Adverse Financial Condition indicating that a material misstatement to the financial statement was reported to the OCI; in particular, that WRC’s surplus was overstated by \$6,129,097, as 1st Auto’s equity should have been non-admitted under Statutory Statements of Accounting Principle No. 97 due to substantial doubt about the entity’s ability to continue as a going concern. Had this been reported in the financial statements, WRC would have reported surplus of \$16,171,558.

3.02 WRC and 1st Auto’s financial performance (on a consolidated basis) has deteriorated in recent years as indicated by several key metrics.

- (a) *Admitted Assets.* From 2018 to 2021, WRC’s consolidated admitted assets were relatively flat, growing from \$106.6 to \$112.9 million. In 2022 the company saw a sharp drastic decrease to \$80.0 million.
- (b) *Combined Ratio.* The Companies’ combined ratio increased from just over 101.1% in 2018 to 135.1% in 2022. The increase in the combined ratio was

driven primarily by the Companies' loss ratio which rose 27% from 2018 to 2022 and the Companies' expense ratio which rose 5.9% over that same period.

(c) *Consolidated Net Income (Loss)*. The Companies' net income or loss has also worsened in the past five years. The Companies' underwriting gain or loss has deteriorated. In 2018 the Companies experienced an underwriting loss of \$900,000; in 2022 the underwriting loss was \$21.7 million. In 2018, the Companies had a net income of \$1.5 million. In 2022 the net loss was \$15.5 million.

(d) *Surplus*. The Companies' surplus has also fallen drastically from \$60.1 million in 2018 to \$16.2 million in 2022, the lowest surplus amount in over a decade.

3.03 Catastrophe events have played a significant role in WRC's deteriorating financial position. As disclosed in the December 31, 2022 Annual Statement, "Losses to surplus in the last two years resulting from severe convective storm activity in the Midwest has raised substantial doubt about [WRC's] ability to continue as a going concern within one year following the date of the financial statements." WRC's losses from catastrophe events in the past 5 years are as follows: \$9.2 million in 2018, \$20.0 million in 2019, \$25.7 million in 2020, \$18.3 million in 2021, and \$75.9 million in 2022.

3.04 As of December 31, 2022, 1st Auto reported assets of \$24,886,701, liabilities of \$18,57,604, and surplus of \$6,129,097. During 2022, 1st Auto's surplus declined \$3,535,238, or 36.5%. In the first quarter of 2023, 1st Auto's surplus declined another \$1,538,855 resulting in surplus of \$4,590,242, as of March 31, 2023. As reported in its Annual Statement, 1st Auto "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."

3.05 Since the Rehabilitation petition was filed on May 23, 2023, the Companies' financial position has continued to deteriorate. In its Q1 2023 financial statements, WRC reported assets of \$55,937,991, liabilities of \$38,303,733, and surplus of \$17,634,258. In its Q1 2023 financial statements, 1st Auto reported assets of \$25,137,640, liabilities of \$20,547,398 and surplus of \$4,590,242.

3.06 Since the filing of the Rehabilitation Petition, the Rehabilitator has analyzed the ongoing viability of the Companies and the steps necessary to limit the further deterioration of the Companies' financial stability.

- (a) *WRC*. The Rehabilitator has examined the feasibility of WRC continuing to offer reinsurance policies in calendar year 2024 and beyond.
- (b) *1st Auto*. The Rehabilitator, in conjunction with 1st Auto, has conducted a review of the company's underwriting and rating practices.
- (c) *Investors*. In the months preceding the Rehabilitation Petition, WRC sought out investors or other financial partners that could potentially provide financial stability to the Companies. Since the Rehabilitation Petition was filed, the Rehabilitator has continued to work with WRC to assess potential transactions that could stabilize the company, while also accomplishing the Rehabilitator's goal of limiting disruption for the broader mutual market. To

date, no proposals compatible with the Companies' and the Rehabilitator's goals and objectives for the Rehabilitation have been presented.

3.07 Because of the urgency of the Companies' financial positions, and the potential disruptive effect on the town mutual industry and broader mutual market (and, in turn, policyholders) beginning in 2024 from WRC's exit from the town mutual reinsurance market, the Rehabilitator has determined it must proceed quickly with implementing this Plan of Rehabilitation.

Article IV. WRC

4.01 To reform and revitalize WRC, and based on analysis and review conducted by the Rehabilitator, Special Deputy Commissioner, and WRC, WRC will no longer individually issue reinsurance policies. All current WRC reinsurance policies are issued on an annual basis, with coverage commencing on the first day of the calendar year (i.e., January 1). Accordingly, WRC will issue nonrenewal notices to its policyholders informing them that they will not have reinsurance coverage from WRC for calendar year 2024.

4.02 WRC will (1) transition from a reinsurer of the town mutual industry to a direct writer of insurance policies and (2) administer a reinsurance pool of town mutual insurance companies.

4.03 *Remutualization and Plan of Conversion.* In order to accomplish these changes WRC will also "re-mutualize" into a non-assessable mutual insurance company ("Remutualized WRC"). WRC will convert from a domestic stock corporation into a mutual, through a process similar to that established in Wis. Stat. § 611.75, but subject to the review of the Court and the Commissioner in this Rehabilitation.

- (a) *Plan of Conversion.* The Rehabilitator will prepare and submit to the Court for approval a plan of conversion consistent with Wis. Stat. § 611.75.
- (i) The plan will provide for the purchase by WRC of all of its outstanding capital stock at a price specified in the plan or to be determined under a formula specified in the plan. The purchase will be accomplished through an exchange of outstanding capital stock for specified debt securities to be issued by WRC (i.e., surplus or contribution notes).
 - (ii) The plan will provide a fair procedure, subject to the determination of the Commissioner, for the valuation of any contractual obligations of WRC (such as those relating to stock options) that must be terminated on the date of conversion and are compensable pursuant to Wis. Stat. § 611.75(6)(b).
 - (iii) The plan developed by the Rehabilitator will not violate the law, will not provide terms that are unfair to the shareholders or the policyholders or WRC, and will ensure that Remutualized WRC will satisfy the requirements for a certificate of authority under Wis. Stat. § 611.20.
 - (iv) The plan will not be subject to a public hearing by the Commissioner, but will be subject to the approval of the Court. Pursuant to the Rehabilitation Order and this Plan, the plan of conversion will not be submitted to the shareholders of WRC for approval.
- (b) *WRC Stock and Contribution Notes.*
- (i) *WRC Stock and Valuation.* During 1990 and 1991, WRC demutualized and converted to a stock insurance company, pursuant to Wis. Stat. § 611.76. At that time, the policyholders were primarily town mutual insurance companies subject to administrative restrictions regarding permitted investments in common stock assets. To enable the conversion of WRC from a mutual to a stock company, stock was issued to town mutual insurers. WRC distributed 309,655 Shares of Class A Common capital stock at \$14.98 per share upon the effective date of the conversion. In 1991, WRC obtained capital funds of \$6,395,000 through the sale of Series A convertible preferred stock to WRC common stock shareholders, and it used the proceeds to capitalize and incorporate 1st Auto as an insurance company subsidiary. In 1997, WRC obtained an additional \$3,225,000 of capital funds from the sale of Series B cumulative preferred stock to WRC common stock shareholders. WRC is currently owned by 73 small mutual insurers domiciled in Wisconsin, Iowa, Missouri, Illinois, and Arkansas. A small number of shares are owned by 294 natural persons who

purchased personal umbrella liability policies from the company in the five years before the conversion.

- (ii) In 2017, the WRC common stock reached a high of \$141.27. As of 2022, the value of the stock has declined to \$29.10. The valuation of the stock is determined based on WRC's surplus and total outstanding shares.
- (iii) The plan of conversion will provide for the conversion of the WRC stock to contribution notes or similar instruments and establish a valuation for the notes issued to each current shareholder of WRC. The plan of conversion also will establish the interest rate, maturity, and terms of the notes.
- (iv) All notes issued shall be subject to the requirements of Wis. Stat. § 611.33, including specifically the requirement that payment of the principle or interest may be made in whole or in part only after approval of the Commissioner.

(c) Another primary goal of the remutualization of WRC is to facilitate potential mergers of chapter 612 town mutuals with and into WRC. Presently, WRC reinsures 34 out of 44 town mutuals in Wisconsin. The Rehabilitator expects that some of WRC's current reinsurance policyholders may find merger into WRC a necessary or desirable option for their policyholders and members as a result of the Rehabilitation.

- (i) WRC will no longer individually issue reinsurance policies to town mutuals. Through administrative orders, the OCI has directed WRC's town mutual policyholders to examine all options to maintain their certificate of authority and compliance with Wisconsin law, including obtaining reinsurance from another qualified reinsurer. Town mutuals that have not otherwise been able to obtain statutorily required reinsurance for 2024 or make other structural changes to maintain their compliance with Wisconsin law (e.g., merge with another company that has sufficient reinsurance coverage or convert to a chapter 611 mutual insurance company, procure reinsurance, or dissolve) may need to merge with and into Remutualized WRC.
- (ii) Other WRC town mutual policyholders may find merger with and into Remutualized WRC desirable and in the best interests of their members and policyholders for other reasons, including management and personnel issues (e.g., retirements of managers or inability to find

directors) or the broader range of products and services that Remutualized WRC may offer.

- (iii) Those WRC town mutual policyholders that cannot obtain reinsurance satisfying the requirements of Wisconsin law for 2024 (or take other action to maintain their compliance with Wisconsin law) may be subject to administrative action to secure compliance with the law and protect the interests of policyholders, creditors, and the general public pursuant to Wis. Stat. § 601.41 and Wis. Stat. ch. 645. Such administrative actions by the Commissioner may include seizure orders or formal rehabilitation or liquidation proceedings. In the event any such town mutual becomes subject to a future rehabilitation proceeding, the Commissioner will consider merging the town mutual into Remutualized WRC to protect the interests of the town mutual's policyholders and creditors.

4.04 *Direct Writer of Insurance.* Remutualized WRC will focus on the direct sale of policies to consumers and businesses throughout the state. Initially, Remutualized WRC will leverage its existing knowledge of the Wisconsin mutual industry to focus primarily on policyholders in the rural areas and small municipalities of the state. Remutualized WRC will develop its customer base through mergers with other Wisconsin mutuals (as described in the Plan) as well as direct solicitation of new policyholders through agent distribution channels.

4.05 *Administrator of Reinsurance Pool.* A primary focus of Remutualized WRC will be as administrator of a reinsurance pool established in this Rehabilitation (the "Pool"). Because of the systemic importance of WRC to the broader mutual market, ensuring its stability and the continued availability of statutorily mandated reinsurance for Wisconsin town mutuals is essential to avoiding further disruption to town mutuals and the policyholders that rely on them for coverage. WRC possesses existing expertise relating to this segment of the industry, and it will continue to leverage that expertise through its role as the administrator of the Pool. For town mutuals, participating in the Pool may be an attractive option that allows them to retain their local nature and identity.

(a) *Pool Requirements.* All of WRC's existing mutual insurance company policyholders will be able to participate in the Pool, subject to certain requirements to be established by the Rehabilitator and WRC:

- (i) Financial Solvency Requirements – all Pool participants must satisfy a minimum surplus requirement to be established by the Rehabilitator. Such requirements may include a specific amount of minimum surplus or specified surplus to gross premium ratio, and may also include minimum premium levels.
- (ii) Capital Contributions – Initial capital contributions to capitalize Remutualized WRC are required, but may be returnable to town mutuals after a period of time if a town mutual leaves the Pool.
- (iii) Underwriting and Rating Requirements – Pool participants will be expected to meet underwriting and rating requirements established by Remutualized WRC.
- (iv) Additional Guidelines – Pool participants will be responsible for underwriting, claims handling, and financial reporting, subject to guidelines established by WRC.

(b) *Pool Structure and Administration.* Subject to ongoing development by the Rehabilitator and WRC, the Pool will generally be structured and administered as follows:

- (i) Chapter 612 participants in the Pool will cede all of their business to Remutualized WRC through a 100% quota share reinsurance agreement. Other mutuals participating in the Reinsurance Pool may cede a lesser percentage.
- (ii) Pool participants will receive a ceding commission.
- (iii) Pool participants will retain any fees that are not part of premium.
- (iv) WRC will procure reinsurance on behalf of the Pool.
- (v) WRC will administer the Pool and be paid a percentage of premium to cover its administrative expenses.
- (vi) Gains and losses experienced by the Pool each year will be divided between the Pool Participants, subject to caps. Initially, gains will be capped to strengthen Remutualized WRC and enable repayment of the contribution notes. Each Participant will have a maximum loss

calculated based on Wis. Admin. Code. § INS 13.09 to protect surplus of the town mutual insurers.

(vii) Pool participants will be required to enter into a variety of agreements relating to the formation of and participation in the Pool, including an administrative services agreement, a reinsurance allocation agreement, and a capital contribution agreement.

(viii) Each Pool participant will be a named insured on the Remutualized WRC global reinsurance agreement.

4.06 *Remutualized WRC Access to Reinsurance.* To best position WRC for future stability and the continued availability of reinsurance to WRC, a primary objective of the Plan is to ensure that WRC will have sufficient premium through its direct business and the Pool to be able to source reinsurance for the combined business in the market.

Article V. 1st AUTO

5.01 1st Auto has approximately 23,000 policyholders in the six states in which it operates. In 2022, the Company wrote \$35,385,310 in premium. The vast majority of the policyholders and premium are in Wisconsin, Illinois, and Missouri. All 1st Auto policies are six (6) month term policies.

5.02 Before the filing of the Rehabilitation Petition, 1st Auto began conducting a review of rating and underwriting standards and rules in Wisconsin and throughout the states in which the company operates.

5.03 In recent months, 1st Auto has begun taking a variety of actions to improve the company's financial position, including rate increases, improved underwriting standards, and issuance of non-renewals to policyholders no longer meeting the company's criteria. After reviewing the efficacy of 1st Auto's efforts to date to improve the financial position of the company, the Rehabilitator believes that continued focus on and expansion of these efforts will return the company to a solid financial position within an 18-24 month period of time.

5.04 1st Auto's most profitable and well managed (i.e., appropriately underwritten and rated) business is with policyholders also reinsured by a WRC reinsured mutual. In order to focus 1st Auto's efforts and improve the likelihood for the continued viability of the Company, 1st Auto will begin nonrenewing its policyholders in states that are not written through mutual companies participating in the Pool. Additionally, the Rehabilitator will examine opportunities to obtain compensation for facilitating the placement of the nonrenewed business with other licensed insurance companies in the applicable jurisdictions.

5.05 1st Auto will continue its efforts to improve its book of business in Wisconsin through rate increases and improved underwriting standards. Additionally, historical data indicates that 1st Auto's Wisconsin mutual insurer supported business is approximately 4-6% better than its other business.

5.06 The Rehabilitator intends that 1st Auto will remain a stock subsidiary company of Remutualized WRC. Going forward, 1st Auto will offer its direct line automobile coverage exclusively to Reorganized WRC's policyholders and the mutual company's participating in the Pool.

5.07 The Rehabilitator will also consider cancellation of 1st Auto policies. In the event policy cancellations are determined necessary, the Rehabilitator will petition the Rehabilitation Court for approval and provide advance notice of the cancellation to policyholders.

5.08 The continued operation of 1st Auto is also of strategic importance to WRC, specifically, and the town mutual industry in Wisconsin, generally. Town mutuals are not permitted under Wisconsin law to issue automobile insurance policies; maintaining 1st Auto as an active writer of personal and commercial automobile policies will assist in further stabilizing the mutual industry in Wisconsin.

Article VI. TOWN MUTUAL INDUSTRY

6.01 WRC is integral to the functioning of town mutual insurance companies organized under Wis. Stat. ch. 612, to which it issues reinsurance coverage. Town mutuals are subject to specific reinsurance obligations, providing protection against the risk that a significant claim or series of claims could jeopardize the solvency of the town mutual. Presently, WRC reinsures 34 town mutuals, 5 converted town mutuals now organized under ch. 611, and 1 small insurer that reinsures Wisconsin mutuals against assessments to policyholders that is organized under Wis. Stat. ch. 611. As such, WRC has systemic importance to the mutual insurance industry in Wisconsin. Of the 44 town mutuals currently licensed in Wisconsin, WRC reinsures all but 10. Only two other reinsurance companies currently reinsure the town mutual industry in Wisconsin.

6.02 As outlined in Article IV, the Plan provides for two primary options for WRC's current mutual policyholders to obtain reinsurance or maintain their compliance with state law for calendar year 2024 (i.e., merger into Remutualized WRC or participation in the Pool). Some town mutuals may view merger as an attractive option for a variety of reasons, including challenges relating to recruitment of directors or hiring of managers. For other town mutuals, participating in the Pool may be an attractive option that allows them to retain their local nature and identity.

6.03 Pursuant to the administrative orders sent to WRC's current mutual policyholders, the Rehabilitator expects that these companies will be examining all options for maintaining compliance with law and protecting the interests of their policyholders. The Commissioner expects that WRC's current mutual policyholders will also consider other options outside of those identified in this Plan. The Commissioner also recognizes that sufficient competition

within this segment of the industry is important to protect the public throughout the state that relies on the town mutual industry for insurance coverage.

Article VII. OTHER STATES

7.01 The vast majority of the Companies' current premium and risk exposure is in Wisconsin. Outside of Wisconsin, WRC reinsures farm, town, or county mutual insurance companies as follows: Arkansas (2), Illinois (4), Iowa (1), Missouri (13), and South Dakota (2). 1st Auto is licensed in Wisconsin, South Dakota, Arkansas, Iowa, Illinois, and Missouri.

7.02 In addition to its withdrawal from the town mutual reinsurance market in Wisconsin, as part of the Plan, WRC will also cease operation in the other states in which it is licensed and issue nonrenewal notices to existing policyholders in those states effective beginning in calendar year 2024, or as soon as practicable under the terms of the applicable reinsurance contracts.

7.03 As referenced above in Article V, 1st Auto will also begin nonrenewing all current policies that are not written through mutual companies participating in the Pool as part of its effort to refocus on its core town or farm mutual business and return to profitability through improved rating and underwriting procedures.

Article VIII. PROCEDURES GOVERNING SUBMISSION OF CLAIMS AND DISTRIBUTIONS

8.01 *Claims Administration.* The Rehabilitator and Special Deputy Commissioner are responsible for administering, disputing, objecting to, compromising or otherwise resolving all claims in accordance with this Plan. The Rehabilitator or the Special Deputy Commissioner may delegate or assign specific responsibilities to the Companies' management and staff or other persons.

8.02 *Direct Policy Claims.* For claims of a reinsured mutual company of WRC or direct insured of 1st Auto that are valid and covered by a reinsurance or insurance policy issued by WRC or 1st Auto:

- (a) The Rehabilitator or the Delegees shall pay the same, during the pendency of the plan, with funds from the applicable Company.
- (b) Subject to Article IX herein and the Rehabilitation Order, the Rehabilitator shall defend or continue the defense of such claims or actions during the pendency of this Plan and shall pay all loss adjustment expenses, including defense costs related thereto and incurred during the pendency of the Plan.
- (c) The Rehabilitator's obligations under subparagraphs (a) and (b) shall extend to settlements authorized in writing by the applicable Company and final judgments on the merits of claims or actions entered by a court of competent jurisdiction, from which no appeal has been taken and from which no further appeal may be taken provided, however, that the Rehabilitator shall have no obligation to pay those authorized settlements and/or judgments:
 - (i) Procured by fraud or misrepresentation;
 - (ii) Procured by collusion involving the insured and/or his representatives and a third person;
 - (iii) Taken by default by or against the insured; or
 - (iv) As to which claims or actions the applicable Company has a meritorious policy defense or other defense.
- (d) Should the Rehabilitator deny any such claim, the person or entity making the claim may seek review from the Court.

8.03 Nothing in this Plan shall cause to inure to the benefit of any insured of the Companies under any insurance policy issued by the Companies or to any person or entity

having a claim against the Companies or any insured of the Companies under a policy of insurance issued by the Companies, any greater right than that which would have existed were the Companies not in rehabilitation.

Article IX. IMMUNITY AND INDEMNIFICATION OF THE REHABILITATOR, EMPLOYEES, AND CONSULTANTS

9.01 The following persons and entities are entitled to protection under this part of the Plan: the Rehabilitator, the Rehabilitator's employees (past and present), the Special Deputy Commissioner, any other professionals whom the Rehabilitator employs to assist in the rehabilitation process, and the other professional's employees (past and present), including other professionals (and their employees, past and present) who are retained by the Rehabilitator as independent contractors.

9.02 All persons and entities identified in paragraph 9.01 shall have official immunity and shall be immune from suit and liability, both personally and in their official capacities, for any claim for damage to or loss of property or personal injury or other civil liability caused by or resulting from any alleged act, error, or omission arising out of or by reason of their duties or employment with respect to the Companies rehabilitation; provided that nothing in this paragraph shall be construed to immunize the Rehabilitator or any other person or entity identified in paragraph 9.01 from suit or liability for any damage, loss, injury or liability caused by their intentional misconduct.

9.03 If any legal action is commenced against any person or entity identified in paragraph 9.01, whether against that person or entity personally or in an official capacity, alleging property damage, property loss, personal injury or other civil liability caused by or resulting from any alleged act, error, or omission arising out of or by reason of their duties or employment in connection with this Rehabilitation, that person or entity shall be indemnified

from the assets of the Companies for all expenses, attorney's fees, judgments, settlement, decrees or amounts due and owing or paid in satisfaction of or incurred in the defense of such legal action, unless it is determined upon a final adjudication on the merits that the alleged act, error, or omission did not arise out of or by reason of the person's or entity's duties or employment for the Companies rehabilitation, or was caused by intentional misconduct.

9.04 Any indemnification for expense payments, judgments, settlements, decrees, attorney's fees, surety bond premiums or other amounts paid or to be paid from the assets of the Companies pursuant to this part of the Plan shall be considered an administrative expense of the Companies.

Article X. GENERAL PROVISIONS

10.01 *Preferences under this Plan.* Any and all actions taken, or not taken, by the Rehabilitator under this Plan shall not be construed to be, nor be considered, a preference under Wis. Stat. § 645.54 or as that term generally is used in receivership and bankruptcy law.

10.02 *Governing Law.* The right and obligations arising under this Plan shall be governed by, and construed and enforced in accordance with, the laws of the State of Wisconsin, without giving effect to the principles of conflicts of law thereof.

10.03 *Prior Orders and Agreements.* Unless modified by this Plan, the prior orders of this Court shall remain in full force and effect throughout the period of administration of this Plan. These orders include, without limitation, the Rehabilitation Order and the Injunction. Nothing in this Plan alters prior agreements or arrangements approved by the Rehabilitator with respect to the Companies or any liability in respect of any Policy or other liability allocated to the Companies.

10.04 *Revocation or Withdrawal of this Plan.* The Rehabilitator reserves the right to revoke or withdraw this Plan prior to the Confirmation Date. If the Rehabilitator so revokes or withdraws this Plan, then this Plan shall be null and void and, in such event, nothing contained herein shall be deemed to constitute a waiver or release of any Claims by or against the Companies or any other Person, or to prejudice in any manner the rights of either Company or any other Person in any further proceedings involving either Company.

10.05 *Termination of Rehabilitation.* Whenever the Rehabilitator believes that further attempts to rehabilitate either Company would substantially increase the risk of loss to creditors, policyholders, or the public, or would be futile, the Rehabilitator may petition the Rehabilitation Court for an order(s) of liquidation, pursuant to Wis. Stat. Chapter 645. The Rehabilitator may at any time petition the Rehabilitation Court for an order(s) terminating the rehabilitation of the Companies if rehabilitation has been accomplished and the grounds for rehabilitation identified in the Rehabilitation Order no longer exist.

Article XI. DEFINITIONS

Unless defined elsewhere in this Plan or unless the context otherwise requires, terms used in the plan shall have the respective meanings set forth below.

11.01 “Claim” means any right to payment from either Company, whether or not such right is reduced to judgment, liquidated, unliquidated, fixed, contingent, matured, unmatured, disputed, undisputed, equitable, legal, secured, or unsecured, or any right to an equitable remedy for breach of performance if such breach gives rise to a right of payment from the applicable Company, whether or not such right to an equitable remedy is reduced to judgment, fixed, contingent, matured, unmatured, disputed, undisputed, secured, or unsecured.

11.02 “Court” means the Circuit Court of Dane County, State of Wisconsin.

11.03 “Creditor” means a person or entity have a claim against WRC or 1st Auto.

11.04 “Delegees” means the Companies’ officers, directors, managers, and employees to whom the Rehabilitator has delegated the authority and right to operate the Companies during the pendency of the rehabilitation proceedings, or any other persons the Rehabilitator has delegated such partial or complete authority.

11.05 “OCI” means the Office of the Commissioner of Insurance of the State of Wisconsin.

11.06 “Plan” means this Plan of Rehabilitation for WRC and 1st Auto, and any subsequent amendments or modifications.

11.07 “Rehabilitation Order” means the Order for Rehabilitation Order entered in the proceeding on June 21, 2023, and any subsequent amendments or modifications.

11.08 “Rehabilitator” means the Commissioner, as the court-appointed rehabilitator of the Companies.

Dated at Madison, Wisconsin this 11th day of July, 2023.

Respectfully submitted,
GODFREY & KAHN, S.C.

By: Electronically signed by James A. Friedman
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