

Report
of the
Examination of
Community Insurance Corporation
Madison, Wisconsin
As of December 31, 2013

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State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

Scott Walker, Governor
Theodore K. Nickel, Commissioner

Wisconsin.gov

March 2, 2015

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Honorable Theodore K. Nickel
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:

COMMUNITY INSURANCE CORPORATION
Madison, Wisconsin

and this report is respectfully submitted.

I. INTRODUCTION

The previous examination of Community Insurance Corporation (the company or CIC) was conducted in 2009 as of December 31, 2008. The current examination covered the intervening period ending December 31, 2013, and included a review of such 2014 transactions as deemed necessary to complete the examination.

The examination was conducted using a risk-focused approach in accordance with the NAIC Financial Condition Examiners Handbook, which sets forth guidance for planning and performing an examination to evaluate the financial condition and identify prospective risks of an insurer. This approach includes the obtaining of information about the company including corporate governance, the identification and assessment of inherent risks within the company, and the evaluation of system controls and procedures used by the company to mitigate those risks. The examination also included an assessment of the principles used and significant estimates made by management, as well as an evaluation of the overall financial statement

presentation and management's compliance with statutory accounting principles, annual statement instructions, and Wisconsin laws and regulations.

The examination consisted of a review of all major phases of the company's operations and included the following areas:

- History
- Management and Control
- Corporate Records
- Conflict of Interest
- Fidelity Bonds and Other Insurance
- Employees' Welfare and Pension Plans
- Territory and Plan of Operations
- Affiliated Companies
- Growth of Company
- Reinsurance
- Financial Statements
- Accounts and Records
- Data Processing

Emphasis was placed on the audit of 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 with respect to the alternative or additional examination steps performed during the course of the examination.

Independent Actuary's Review

An independent actuarial firm was engaged under a contract with the Office of the Commissioner of Insurance. The actuary reviewed the adequacy of the company's loss and loss adjustment expense reserves. The actuary's results were reported to the examiner-in-charge. As deemed appropriate, reference is made in this report to the actuary's conclusion.

II. HISTORY AND PLAN OF OPERATION

The company was incorporated on April 24, 2002, under ch. 611, Wis. Stat., as a stock property and casualty insurance company licensed in Wisconsin. The sole shareholder of the company is Wisconsin County Mutual Insurance Corporation (WCMIC). The company was formed to provide liability and worker's compensation coverage to municipalities and school districts. On November 26, 2003, the commissioner granted CIC the authority to also offer fire, inland marine and other property insurance pursuant to a change in the authority allowed under s. 611.11 (4) (b), Wis. Stat.

In Wisconsin, municipalities and school districts have a limited exposure to large general liability and automobile liability claims due to "tort caps" of \$50,000 on general liability and \$250,000 on automobile liability pursuant to ss. 893.80 (3) and 345.05 (3), Wis. Stat. There is no "tort cap" for certain liability actions, such as civil rights actions based on federal law.

During 2013, the company provided municipalities and school districts with the following coverages:

- Liability insurance coverage with policy limits of up to \$10,000,000 per loss occurrence. These coverages are written above deductibles, which ranged from \$0 to \$250,000 per municipality or school district on a prefunded or standard deductible basis.
- Worker's compensation coverage with policy limits of the employer's liability reaching \$1,000,000 per accident for bodily injury by accident and \$1,000,000 per policy limit and per each employee for bodily injury by disease. The worker's compensation portion of coverage is as prescribed by Wisconsin law. During 2013, the company re-entered the market writing first dollar worker's compensation business after exiting the market in 2008.
- Auto physical damage coverage, as a property coverage component. Coverage is provided on an actual cash value basis and is written above deductibles ranging from \$500 to \$10,000.

CIC also offers retroactive coverages to its policyholders. The retroactive coverages include errors and omissions for both municipalities and schools. The coverage is also extended for some municipalities to provide employee benefit coverage. As of the date of this examination, all schools have such retroactive coverage and 39 of CIC's insured municipalities have such coverage. Some policies issued by CIC indicated the retroactive coverage extends as far back as 1987. The retroactive coverage is made available to policyholders who had coverage on a

“claims made” basis from previous insurance carriers rather than on an occurrence basis. The retroactive coverage is to cover claims that are first reported during the effective period of the CIC policy even though the occurrence date was prior to CIC offering the coverage. The retroactive coverage includes coverage for employment discrimination, sexual harassment and individual education plans required for special education students.

CIC offers policyholders the opportunity to establish a prefunded deductible escrow account for paying the deductible portion of their losses. The gross premiums are calculated using the insured’s ratable operating expenses (ROE) or other exposure basis multiplied by the base rate and loyalty credit. A factor is then applied to the gross premium, based upon the deductible option selected, to determine the deductible credit. The gross premium is then reduced by the deductible credit to determine the actual premium charged. The insured’s deductible deposit earns interest at a rate that matches the average interest rate earned by the company in its investments. During the policy year, the company monitors and pays claims on behalf of its insureds. At the end of the third quarter, the self-insured portion of claims paid and percentage of outstanding reserves are compared with the deposit, and the balance is settled.

During 2013, municipalities participating in the liability and/or worker’s compensation programs included 5 cities (3% of all Wisconsin cities), 43 towns (3% of all Wisconsin towns) and 23 villages (6% of all Wisconsin villages). CIC also offered liability and worker’s compensation to 12 other municipal entities (e.g., utilities, sanitariums, fire districts). In addition, there were 120 school districts participating in the liability program (26% of all Wisconsin school districts). Of the school districts participating in the liability program, 6 also participated in the worker’s compensation program. The auto physical damage program had 10 municipal and 14 school district policyholders.

Effective January 1, 2012, WCMIC entered into a loss portfolio and 100% quota share reinsurance agreement with CIC. Pursuant to the loss portfolio, CIC transferred approximately \$10.6 million in assets to WCMIC for loss and loss adjusting expense reserves and unearned premium reserves on policies issued prior to January 1, 2012. CIC has ceded to WCMIC 100% of CIC’s losses, liabilities and obligations arising under or relating to insurance

policies issued by CIC prior to January 1, 2012, and will cede all policies issued or renewed on or after January 1, 2012.

The following table is a summary of the net insurance premiums written by the company in 2013. 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
Worker’s compensation	\$2,353,891	\$0	\$2,353,891	\$0
Other liability – occurrence	2,361,401	0	2,361,401	0
Commercial auto liability	911,472	0	911,472	0
Auto physical damage	<u>57,344</u>	<u>0</u>	<u>57,344</u>	<u>0</u>
Total All Lines	<u>\$5,684,107</u>	<u>\$0</u>	<u>\$5,684,107</u>	<u>\$0</u>

CIC policies are marketed using an agency affiliated with Aegis Corporation (Aegis), its managing general agent (MGA), and independent agencies. The MGA is responsible for market conduct, agency appointments and field direction of the agency force. The company offers a one-year policy term. The major products marketed by the company include the following:

Liability coverage

Automobile liability

- Bodily injury and property damage
- Hired and non-owned
- Uninsured motorists
- Underinsured motorist
- Auto physical damage (comprehensive and collision)

General liability

- Bodily injury and property damage products/completed operations
- Contractual liability
- Cyber liability coverage enhancement endorsement

Personal injury liability

- A broad definition of and coverage for discrimination
- Civil rights violations; and employment-related acts
- Libel, slander or defamation of character

Law enforcement liability

- Jail operations
- Assault and battery and intentional acts

Public officials errors and omissions including director and officer liability

- Health care institutions
- Municipal-owned airports

Municipality or school district officials appointed to serve on other boards and commissions on behalf of the insured

Nursing home liability

Worker's compensation coverage

First dollar worker's compensation

Excess worker's compensation, for self-insured clients

Auto physical damage coverage

Comprehensive and collision

III. MANAGEMENT AND CONTROL

Management

CIC has no employees. The company contracts with outside vendors to provide agreed-upon services. The services include corporate management, general administration, claims administration, auditing, actuarial, and investments.

The company initially entered into an agreement with Wisconsin Counties Association (WCA) to provide corporate management services. On June 20, 2002, the agreement was amended to replace WCA with its affiliate, WCA Services, Inc. (WCASI). The services to be provided under the agreement are summarized as follows:

- A. Manage and oversee all CIC's service contracts, including, but not limited to, contracts for claims administration, general administration, risk management services and training, public relations, investment and reinsurance brokerage. WCASI shall review and approve the expenditure of funds associated with any service contract approved by the corporation's board prior to the disbursement of such funds.
- B. Oversee investment of CIC's assets.
- C. Provide customer services on behalf of CIC to municipalities and school districts.
- D. Coordinate board meetings.
- E. Arrange for legal services as directed by the board of directors.
- F. Arrange for insurance consultant services.
- G. Provide for and oversee marketing of CIC.
- H. Reimburse the board of directors for personal travel expenses, subject to CIC reimbursement to WCASI.
- I. Pay expenses for CIC subject to reimbursement.
- J. Issue communications to policyholders.
- K. Prepare periodic financial reports on the corporate management services.
- L. Serve as staff for board.
- M. Provide legislative services at both the state and federal level.
- N. Provide services to the Owner-Direct Insurance Program (ODIP) including:
 - Develop a s. 66.30, Wis. Stat.(replaced by s. 66.0301, Wis. Stat.), organization to act as the "financially responsible party"
 - Manage the s. 66.30, Wis. Stat., organization
 - Promote services to counties
 - Provide legislative support
 - Manage the services

O. Provide research and recommendations for the board of directors.

WCASI is owned by WCA, which has a similar corporate management services agreement with CIC's parent, WCMIC.

WCASI is compensated according to the following schedule:

Coverage	Compensation
Municipal liability	\$0.50 per \$1,000 of ratable operating expenses
Municipal liability and property	\$0.625 per \$1,000 of ratable operating expenses plus \$0.005 per \$100 of insured property values
School liability	\$0.50 per pupil
School liability and property	\$0.625 per pupil plus \$0.005 per \$100 of insured property values
Fully insured worker's compensation	Flat fee per insured of \$800 for each municipality other than a town or school district, \$175 for each town, and \$750 for each school district, plus an annual fee, based on the last audited payroll of the insured, which is .03% of the payroll for each municipality other than a town or school district and .02% for each school district
Excess worker's compensation	2% of the standard worker's compensation rate
Owner-direct insurance program	3.75% of the ODIP premium (net of return premium).

The management agreement is effective from January 1, 2013, through December 31 2017, and may be opened for amendment at any time upon mutual agreement of both parties. CIC may terminate the agreement with 60 days' written notice to WCASI and WCASI may terminate the agreement with 90 days' written notice to CIC.

The table below depicts the ratio of WCASI fees to gross premiums written (GPW) and net premiums earned (NPE) from 2009 through 2013.

	2013	2012	2011	2010	2009
Mgt. fees	\$ 311,425	\$ 250,365	\$ 240,530	\$ 252,996	\$ 284,030
DPW	5,684,107	3,516,189	3,308,674	3,541,535	4,043,810
NPE*		(998,042)	2,501,180	2,635,618	3,088,200
Fees/DPW	5.5%	7.1%	7.3%	7.1%	7.0%
Fees/NPE		-25.1%	9.6%	9.6%	9.2%

* In 2012 the company entered into a 100% quota share agreement with its parent company Wisconsin County Mutual Insurance Corporation.

Administration

Since the company's inception, significant administration services have been provided by Aegis, which is also the company's managing general agent. A review of the agreement showed the contract included provisions required under s. Ins 42.03, Wis. Adm. Code, and that the company was performing all required duties (e.g., performance of on-site claim audits at least semiannually) as required under s. Ins 42.05, Wis. Adm. Code. A more detailed history of Aegis' relationship with CIC can be found in the "Affiliated Companies and Key Service Providers" section of this report. The administrative services to be provided per the agreement are summarized as follows:

- A. Maintain the appropriate records and procedures to comply with the Office of the Commissioner of Insurance regulations.
- B. Coordinate with other service producers and administer a loss prevention program.
- C. Provide services to the ODIP program including:
 - Develop any required forms and filing special forms
 - Develop rates
 - Provide administration services
 - Provide safety services
 - Promote the program
- D. Manage and provide claims adjustment and reports for the company's liability and worker's compensation programs.
- E. Pay expenses as allowed or directed by CIC and provide a monthly accounting of all monies so expended.
- F. Issue insurance policies and/or certificates and issue all invoices; collect amounts due and/or return amounts payable.
- G. Assisting in procuring on the behalf of CIC and CIC's expense, insurance and reinsurance coverages for protection of CIC's coverage, limits and financial well-being, provided that such procurement will be at the direction and approval of CIC.
- H. Provide monthly accounting for all income and expenses of CIC.
- I. Maintain books and records in a manner consistent with the Statements of Statutory Accounting Principles.
- J. Compute the annual premiums established by CIC.
- K. Procure actuarial support services in determining premiums necessary on a continuing basis.
- L. Report monthly on the actual income and expenses compared to the budget.
- M. Prepare all reports required to be filed with the Office of the Commissioner of Insurance.

N. Subject to board approval, do and perform such other, further and additional acts and duties as are generally done and performed.

Aegis has a similar administration agreement with CIC's parent, WCMIC.

Aegis is compensated according to the following schedule:

Coverage	Compensation
Municipal liability	\$1.20 per \$1,000 of ratable operating expenses
School liability	\$2.00 per pupil
Property insurance coverage including auto physical damage	\$125 annual flat fee per policy plus \$.005 per \$100 of total insured values
Auto physical damage insurance only	\$75 annual flat fee per policy plus \$.005 per \$100 of total insured values
Liability claim services	\$517 for all liability claims (including suffixes to 10) and \$30 for files designated "Incident Only." For claims with more than 10 suffixes, fee is \$5,020 plus an additional board approved T&E fee.
Fully insured worker's compensation school districts	An annual flat fee of \$1,500 per each policy issued plus \$0.06 per \$100 payroll remuneration (payroll will be determined off of the "audited" payroll used to determine the most current "final audit" available, or if not available the estimated payroll used to process the policy)
Fully insured worker's compensation municipalities (other than towns)	An annual flat fee of \$2,000 per each policy issued plus \$0.08 per \$100 payroll/remuneration
Fully insured worker's compensation municipalities (towns)	An annual flat fee of \$500 per each policy issued plus \$0.07 per \$100 payroll/remuneration
Excess worker's compensation with services	Up to 2% of the standard worker's compensation rate
Excess worker's compensation without services	Up to 2% of the standard worker's compensation rate based upon the premium and self-insured retention
Worker's compensation claim services	\$571 for lost time claims (including suffixes), \$232 for medical only claims paid less than \$5,000 (including suffixes) and \$571 for medical only claims paid greater than \$5,000, and \$30 for incidental claims
Medicare secondary mandatory reporting claims services	\$32.50 per claim file
Property claims services	\$517 for all property claims (including suffixes) or 4.7% of actual loss, whichever is greater. If a percentage of actual loss is used, it will be capped at a maximum of \$5,020 per claim.

The table below depicts the ratio of Aegis fees to gross premiums written (GPW) and net premiums earned (NPE) from 2009 through 2013.

	2013	2012	2011	2010	2009
Adm. fees	\$ 963,605	\$ 787,595	\$ 772,159	\$ 833,174	\$ 888,555
Claim fees	322,599	268,414	251,523	261,345	354,230
Total fees	1,286,203	1,056,009	1,023,681	1,094,519	1,242,785
NPW	5,684,107	3,516,189	3,308,674	3,541,535	4,043,810
NPE		(998,042)	2,501,180	2,635,618	3,088,200
Fees/NPW	22.6%	30.0%	30.9%	30.9%	30.7%
Fees/NPE		-105.8%	40.9%	41.5%	40.2%

Board of Directors

The board of directors consists of seven members, five representing counties and two representing municipalities. Directors are elected by the sole shareholder at the annual shareholder meeting. Each director shall serve for a period of two years. The terms of the directors are staggered. Directors currently receive \$100 per diem plus allowed travel expenses. Members of the Operations Oversight Committee receive a per diem of \$250 plus allowed expenses for travel.

Currently the board of directors consists of the following persons:

Name and Residence	Principal Occupation	Term Expires
Harold Helwig, Chair Stone Lake, Wisconsin Northwest District	Retired Insurance Agent	2017
Gerald Derr* Columbus, Wisconsin Municipal Representative	Business Owner – Construction Materials Company	2016
Willie Johnson, Jr.* Milwaukee, Wisconsin Southeast District	Milwaukee County Supervisor	2017
Jess Miller Rice Lake, Wisconsin West Central District	Retired	2017
Larry Oehmichen Colby, Wisconsin Municipal Representative	Business Owner	2017
Edmund Wafle Mauston, Wisconsin Western District	Retired	2016
Thomas Wegner Stone Lake, Wisconsin East Central District	Retired	2016

* Derr is a member of the board of directors of Wisconsin Counties Association Services, Inc. (WCASI), and Johnson is on the board of Wisconsin Counties Association (WCA). All of these members properly abstained from voting on matters regarding WCASI and/or WCA.

Officers of the Company

Officers are appointed by the board of directors every other year. The officers appointed by the board and serving at the time of this examination are as follows:

Name	Office
Harold Helwig	Chairman
Thomas Wegner	Secretary/Treasurer
Willie Johnson, Jr.	Vice Chairman
Josh Bindl	Assistant Secretary

Officers are not compensated by the company for their services.

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

Harold Helwig, Chair
Willie Johnson, Jr.
Thomas Wegner

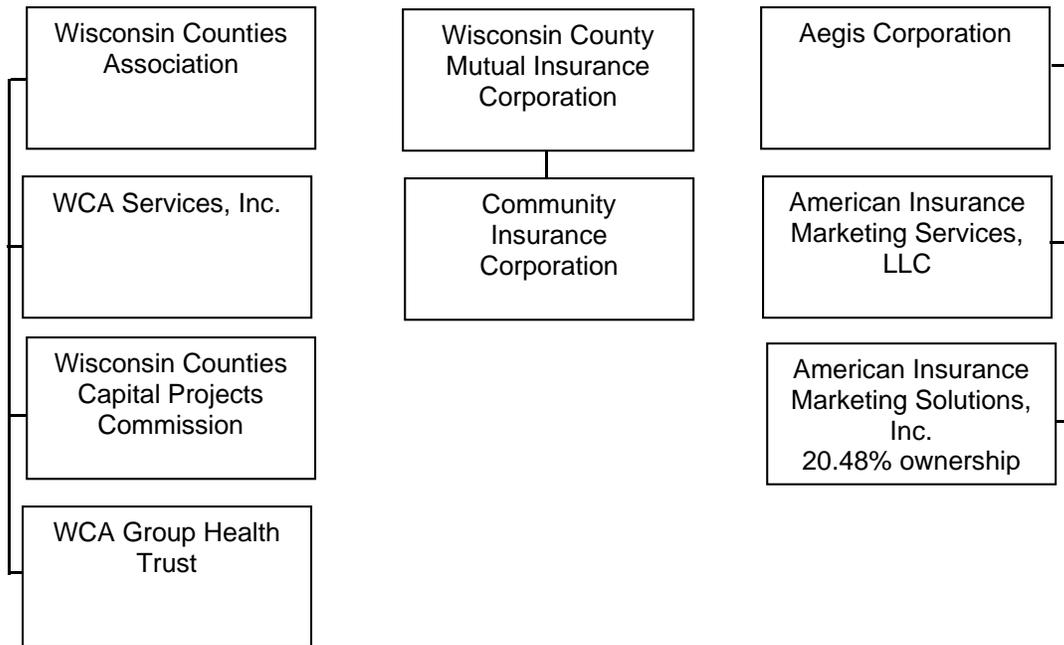
Operations Oversight Committee

Gerald Derr, Chair
Patrick Brennand (External Member)
David Van Spankeren (External Member)
Edmund Wafle
Thomas Wegner

IV. AFFILIATED COMPANIES AND KEY SERVICE PROVIDERS

Community Insurance Corporation is a member of a holding company system with WCMIC its sole shareholder. WCA and its subsidiaries and Aegis and its subsidiaries are key service providers. A brief description of WCMIC as well as CIC’s key service providers and their affiliates follows the organizational chart.

**Organizational Chart
As of December 31, 2013**



Wisconsin County Mutual Insurance Corporation

Wisconsin County Mutual Insurance Corporation was organized by member counties and WCA in 1987 under ch. 611, Wis. Stat., as an assessable municipal mutual. WCMIC is only licensed in Wisconsin. On March 22, 1996, the commissioner approved WCMIC’s conversion to nonassessable status. During 2002, WCMIC formed CIC to provide liability and worker’s compensation coverages to municipalities and school districts of Wisconsin. The initial capitalization of CIC consisted of \$2,000,000 in common capital stock and \$1,000,000 in gross paid-in and contributed surplus. Since the initial capitalization an additional \$11,000,000 has been paid in and contributed to surplus. On November 26, 2003, the commissioner granted

WCMIC and CIC the authority to also offer fire, inland marine and other property insurance. Effective January 1, 2012, WCMIC entered into a loss portfolio and 100% quota share reinsurance agreement with CIC. Pursuant to the loss portfolio transfer agreement, CIC transferred approximately \$10.6 million in assets to WCMIC for loss and loss adjusting expense reserves and unearned premium reserves on policies issued prior to January 1, 2012. CIC has ceded to WCMIC 100% of CIC's losses, liabilities and obligations arising under or relating to insurance policies issued by CIC prior to January 1, 2012, and will cede all policies issued or renewed on or after January 1, 2012.

As of December 31, 2013, WCMIC's statutory annual statement reported assets of \$75,537,821, liabilities of \$42,299,086, and unassigned funds of \$33,238,735. Operations for 2013 produced a net loss of \$806,650.

Key Service Providers and its Affiliates

Wisconsin Counties Association

Wisconsin Counties Association was created in 1935 by an act of the Wisconsin Legislature as a nonprofit association organized for the purpose of protecting and furthering the interests and concerns of county governments. WCA is a quasi-government entity created under s. 59.52 (22), Wis. Stat., and is tax exempt on both the federal and state level. All 72 Wisconsin counties are WCA members. WCA lobbies the Legislature on matters of interest to Wisconsin counties. In recent years, WCA expanded its operations by providing services to its members such as educational programs, employee benefits, and liability insurance. WCA charges additional fees to counties that participate in service programs.

WCA Services, Inc.

In order to provide additional services to counties, the WCA board of directors created WCA Services, Inc. (WCASI), a wholly owned subsidiary of WCA. The service corporation is involved in projects that benefit counties and offer potential cost savings, such as a county purchasing directory, discounted office supplies, a grant locator, and on-line auction services. WCASI has no employees. Services offered are performed by employees of WCA.

WCASI provides management services to WCMIC's subsidiary CIC, which are similar to the services WCA provides to WCMIC. As of December 31, 2013, the financial statements of WCASI were independently reviewed by a certified public accountant. CIC paid WCASI \$288,382 in management fees during 2013 that amounted to 41% of WCASI's revenue during that year.

Wisconsin Counties Capital Project Commission

Wisconsin Counties Capital Project Commission (WCCPC) provides the organizational structure for counties participating in WCMIC's Owner-Direct Insurance Program (ODIP). The entity was formed by WCA under s. 66.30, Wis. Stat., during 2000. Through WCCPC, counties can pool their construction projects in order to meet the project size requirements established by the Wisconsin Department of Workforce Development (DWD) to qualify as the owner under a "wrap-up" insurance program; this allows the counties to purchase worker's compensation and liability insurance for the risks of the construction workers on those projects. WCCPC is governed by a board of commissioners who are elected to represent the WCA districts by participating counties.

There are no financial statements for WCCPC. WCMIC writes the worker's compensation and liability policies related to the ODIP program for WCCPC. There is no surplus or profit generated from the WCCPC. WCA and Aegis Corporation provide all administrative services for WCCPC. Also, a WCA employee staffs the meetings of the commission, acting as the secretary for the meetings, and assists in carrying out the actions of the commission. Aegis provides accounting for the ODIP projects through WCMIC. Due to the lack of new capital projects, the commission has been inactive since February 2003.

The commission adopted two resolutions on February 4, 2000, to approve working with WCA and WCMIC for their insurance needs. Resolution No. 1 states "that the board of commissioners selects WCA and WCMIC as the providers of service and insurance products through the commission for a five-year term and further directs the agreements be executed to effectuate the agreement and accomplish this directive." Resolution No. 2 states "the WCCPC

was formed in the interest of providing Wisconsin Counties the opportunity to take advantage of the numerous benefits of Owner-Direct Insurance Program.”

WCA Group Health Trust

The WCA Group Health Trust was established in 1991 by county officials to create an employee benefit program that would meet the needs of local governments. The WCA Group Health Trust serves Wisconsin county and municipal units of government. WCA provides the corporate management support services for the WCA Group Health Trust. Marketing and consulting functions are provided by Aegis. WCA Group Health Trust is governed by a 15-member board of directors, each serving three-year staggered terms. Members of the board are appointed by the President of WCA. One member of the WCA Group Health Trust board of directors also sits on the CIC board of directors. Additionally, Josh Bindl, CIC's Assistant Secretary, is an officer of WCA Group Health Trust.

Aegis Corporation

Aegis Corporation was formed in 1992 to provide insurance brokerage, risk management, administration and educational services to municipalities and other businesses. Robert Wurtz and John Dirkse each own 50% of Aegis. WCMIC selected Aegis as its administrator on December 1, 1992. Prior to Aegis' creation, the company contracted with Frank B. Hall of Wisconsin, Inc. (Hall) as the administrator. Mr. Wurtz and Mr. Dirkse were employees of Hall and acquired the rights from Hall to service WCMIC and other municipal clients. Conditions of the release from the agreement called for payments from Aegis to Hall totaling \$142,300 in 1993 and \$42,500 in 1994. The formation of Aegis was facilitated by WCMIC paying fees totaling \$185,000, which fee structure was approved in advance by the board. WCMIC separately paid reinsurance brokerage fees to Aegis of 10% of its ceded reinsurance premium for the years of 1993 and 1994, payable on December 1 of the preceding year. It is unusual for the ceding company to pay any fee to its reinsurance broker for placing reinsurance; typically commissions to the broker are paid by the assuming company using reinsurance premiums paid by the ceding company.

As of December 31, 2013, the financial statements of Aegis and its subsidiary American Insurance Marketing Services, LLC (AIMS, LLC) were independently audited by a certified public accountant. Fees paid to Aegis by WCMIC and CIC for administering WCMIC's and CIC's business totaled \$4,993,309 during 2013; these included administration fees of \$3,768,136 and claim adjusting fees of \$1,225,173. Fees paid to Aegis by WCMIC and CIC amounted to 71% of Aegis' revenue during 2013.

American Insurance Marketing Services, LLC

On April 3, 1996, Aegis purchased all the outstanding shares of American Insurance Marketing Services, Inc., an Illinois corporation. Effective December 1, 1997, American Insurance Marketing Services, Inc., was reorganized as a Limited Liability Company (LLC) under the Wisconsin Statutes. AIMS, LLC, and/or Aegis employed several individuals who had reinsurance intermediary licenses. AIMS, LLC, had acted as WCMIC's and CIC's reinsurance broker prior to 2007.

American Insurance Marketing Solutions, Inc.

American Insurance Marketing Solutions, Inc. (AIMS, Inc.) was organized originally as Principal Insurance Managers, Inc. In 1997, Aegis Corporation acquired a 20.48% interest in Principal Insurance Managers, Inc. Seven individuals, some of whom are or were Aegis or AIMS, LLC, employees, own the remaining shares of AIMS, Inc. In 2003, its name was changed to American Insurance Marketing Solutions, Inc. AIMS, Inc., is an insurance agency created to represent the risk management and alternative risk financing needs of public entities, including Wisconsin schools. In 2013, AIMS, Inc., collected approximately \$68,464 from CIC in agent commissions.

V. REINSURANCE

The company's reinsurance portfolio and strategy is 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.

Affiliated Ceding Contract

1. Type: Quota Share
Reinsurer: Wisconsin County Mutual Insurance Corporation
Scope: 100% quota share, all business
Retention: \$0
Coverage: 100%
Premium: All gross premiums written
Commissions: All unallocated claim expenses, underwriting expenses, management and administration fees and other acquisition costs related to the premiums, but only to the extent not paid or otherwise directly settled by the reinsurer
Effective date: January 1, 2012
Termination: Perpetual; 12 months' prior notice for termination

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, 2013, annual statement. 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. 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."

Community Insurance Corporation
Assets
As of December 31, 2013

	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	\$4,686,569	\$	\$4,686,569
Cash, cash equivalents, and short-term investments	635,323		635,323
Investment income due and accrued	11,214		11,214
Premiums and considerations:			
Uncollected premiums and agents' balances in course of collection	79,193		79,193
Deferred premiums, agents' balances, and installments booked but deferred and not yet due	47,731		47,731
Reinsurance:			
Amounts recoverable from reinsurers	<u>1,059,762</u>	—	<u>1,059,762</u>
Total Assets	<u>\$6,519,791</u>	\$	<u>\$6,519,791</u>

Community Insurance Corporation
Liabilities, Surplus, and Other Funds
As of December 31, 2013

Advance premium		\$ 254,875
Ceded reinsurance premiums payable (net of ceding commissions)		281,907
Funds held by company under reinsurance treaties		110,355
Amounts withheld or retained by company for account of others		<u>139,645</u>
Total Liabilities		786,782
Common capital stock	\$ 2,000,000	
Gross paid in and contributed surplus	12,000,000	
Unassigned funds (surplus)	<u>(8,266,990)</u>	
Surplus as Regards Policyholders		<u>5,733,010</u>
Total Liabilities and Surplus		<u>\$6,519,791</u>

Community Insurance Corporation
Summary of Operations
For the Year 2013

Underwriting Income

Premiums earned		\$
Deductions:		
Other underwriting expenses incurred		<u>(47,895)</u>
Net underwriting gain (loss)		47,895

Investment Income

Net investment income earned	\$15,367	
Net realized capital gains (losses)	<u>19,786</u>	
Net investment gain (loss)		<u>35,153</u>
Net Income		<u>\$ 83,048</u>

Community Insurance Corporation
Cash Flow
For the Year 2013

Premiums collected net of reinsurance		\$ 66,771
Net investment income		<u>25,487</u>
Total		92,258
Benefit- and loss-related payments	\$ (238,609)	
Commissions, expenses paid, and aggregate write-ins for deductions	<u>(47,895)</u>	
Total deductions		<u>(286,504)</u>
Net cash from operations		378,761
Proceeds from investments sold, matured, or repaid:		
Bonds	\$2,195,257	
Net gains (losses) on cash, cash equivalents, and short-term investments	<u>12</u>	
Total investment proceeds		2,195,268
Cost of investments acquired (long-term only):		
Bonds	1,968,422	
Total investments acquired		<u>1,968,422</u>
Net cash from investments		226,846
Cash from financing and miscellaneous sources:		
Other cash provided		<u>317</u>
Reconciliation:		
Net change in cash, cash equivalents, and short-term investments		605,924
Cash, cash equivalents, and short-term investments:		
Beginning of year		<u>29,398</u>
End of Year		<u>\$635,322</u>

**Community Insurance Corporation
Compulsory and Security Surplus Calculation
December 31, 2013**

Assets		\$6,519,791
Less liabilities		<u>786,782</u>
Adjusted surplus		5,733,009
Annual premium:		
Lines other than accident and health	\$ 0	
Factor	<u>20%</u>	
Compulsory surplus (subject to a minimum of \$2 million)		<u>2,000,000</u>
Compulsory Surplus Excess (or Deficit)		<u>\$3,733,009</u>
Adjusted surplus (from above)		\$5,733,009
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 (or Deficit)		<u>\$2,933,009</u>

**Community Insurance Corporation
Analysis of Surplus
For the Five-Year Period Ending December 31, 2013**

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

	2013	2012	2011	2010	2009
Surplus, beginning of year	\$5,649,281	\$5,317,006	\$5,989,518	\$6,170,915	\$6,429,275
Net income	83,048	332,261	(674,658)	(178,556)	(258,360)
Change in non-admitted assets	<u>680</u>	<u>14</u>	<u>2,147</u>	<u>(2,841)</u>	<u> </u>
Surplus, End of Year	<u>\$5,733,010</u>	<u>\$5,649,281</u>	<u>\$5,317,006</u>	<u>\$5,989,518</u>	<u>\$6,170,915</u>

**Community Insurance Corporation
Insurance Regulatory Information System
For the Five-Year Period Ending December 31, 2013**

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	2013	2012	2011	2010	2009
#1 Gross Premium to Surplus	99%	62%	62%	59%	66%
#2 Net Premium to Surplus	0	0	47	44	50
#3 Change in Net Premiums Written	0	-140*	-5	-15	-38*
#4 Surplus Aid to Surplus	0	0	0	1	0
#5 Two-Year Overall Operating Ratio	0	159*	129*	125*	115*
#6 Investment Yield	0.3*	0.5*	1.2*	2.0*	2.6*
#7 Gross Change in Surplus	1	6	-11*	-3	-4
#8 Change in Adjusted Surplus	1	6	-11*	-3	-4
#9 Liabilities to Liquid Assets	14	13	67	65	66
#10 Agents' Balances to Surplus	1	0	1	1	0
#11 One-Year Reserve Development to Surplus	0	0	-2	-2	-1
#12 Two-Year Reserve Development to Surplus	0	-2	2	-11	-6
#13 Estimated Current Reserve Deficiency to Surplus	0	0	-19	-47	-71

Ratio No. 3 measures the company's change in net premium written. The exceptional result for 2012 is due to a 100% quota share reinsurance ceded contract the company entered into with its parent, Wisconsin County Mutual Insurance Corporation, effective January 1, 2012, and continuing indefinitely. The exceptional result in 2009 was a continuation of

the effect of the company exiting first-dollar worker's compensation business due to unfavorable operating results.

Ratio No. 5 measures the company's profitability over the previous two-year period. The exceptional results for the period 2009-2012 are the result of the company's inability to generate underwriting profits on a consistent basis.

Ratio No. 6 measures the average return on the company's investments. The exceptional ratios for all five years were attributable to the company's bond portfolio consisting largely of low interest yielding government securities.

Ratios No. 7 and No. 8 measure the year over year changes in surplus and adjusted surplus, respectively; since there are no adjustments to the company's surplus, these measurements are identical. The exceptional values noted in 2011 are due to the large net loss recorded by the company, which led to a significant decrease in surplus.

Growth of Community Insurance Corporation

Year	Admitted Assets	Liabilities	Surplus as Regards Policyholders	Policyholder Dividends	Net Income
2013	\$ 6,519,791	\$ 786,782	\$5,733,010	\$	\$ 83,048
2012	6,286,105	636,824	5,649,281		332,261
2011	15,873,932	10,556,926	5,317,006		(674,658)
2010	17,095,282	11,105,764	5,989,518	9,025	(178,556)
2009	17,980,240	11,809,325	6,170,915	153,414	(258,360)
2008	19,657,415	13,228,140	6,429,275	163,282	69,183

Year	Gross Premium Written	Net Premium Written	Premium Earned	Loss and LAE Ratio	Expense Ratio	Combined Ratio
2013	\$5,684,107	\$	\$	0.0%	0.0%	0.0%
2012	3,516,189	(998,042)		0.0	4.7	4.7
2011	3,308,674	2,051,180	2,524,427	89.2	49.7	138.9
2010	3,541,535	2,635,618	2,814,106	92.1	46.5	138.6
2009	4,043,810	3,088,200	3,363,745	85.1	46.9	132.0
2008	5,962,644	4,962,597	5,946,334	87.7	32.9	120.6

Admitted assets and liabilities decreased significantly beginning in 2012 due to a loss transfer and 100% quota share ceding agreement the company entered into with its parent, Wisconsin County Mutual Insurance Corporation. Surplus has remained fairly steady during the examination period.

Gross premiums increased significantly in 2013 as the company began writing first-dollar worker's compensation coverage. Net and earned premium decreased to zero by 2013 due to the intercompany reinsurance agreement referenced above. The company has posted overall negative financial results over the examination period. It has posted a net loss in three of the five years under examination.

Reconciliation of Surplus per Examination

No adjustments were made to surplus as a result of the examination. For purposes of this examination report, the amount of surplus reported by the company as of December 31, 2013, is accepted.

VII. SUMMARY OF EXAMINATION RESULTS

Compliance with Prior Examination Report Recommendations

There were ten 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. Board of Directors—It is again recommended that directors who are also directors of WCA entities abstain from voting on WCA-related matters, pursuant to s. 611.60 (2), Wis. Stat.

Action—Compliance.

2. Board of Directors—It is recommended that the board of directors review and approve the interest rate credited to the escrow deductible fund accounts at least annually.

Action—Compliance.

3. Committees of the Board of Directors—It is again recommended that the company fully implement the approved Management Plan and have sufficient documentation to substantiate such implementation. The company should be able to demonstrate that the OOC (including at least one external member):

- Actively participate in the negotiation and placement of company reinsurance, including providing a recommendation to the board as to each such placement.
- Actively participate in the review of the underwriting, reinsurance accounting, and claims processing operations of the company's managing general agent, including providing recommendations to the board regarding the results of such reviews.

In addition, the participation in the vendor oversight and reinsurance placement by the OOC should be adequately documented to properly reflect the following:

- Vendor supervision:
 - A due diligence review that shows the person performing the audit [if different than the external member(s)] does not have any conflicts of interest concerning the vendor
 - Audit guides approved by the OOC and evidence that they were actually followed
 - The audit work papers should be the property of the company and retained with the company's records
 - The work papers should contain evidence of the OOC's review (including the signature and date of review for each member of the OOC), that the audit was completed in accordance with the approved audit guide and that the conclusions reached are properly documented and reasonable
 - At least one external member of the OOC should be in regular contact with the person performing the audit and/or review in order to identify any potential issues that would need to be communicated to the other OOC members and, where appropriate, the board
- Reinsurance oversight:
 - Financial projections to show the impact of reinsurance placement at various layers

- Documentation that shows the OOC (including at least one external member of the OOC) actively participated in evaluating the potential reinsurer for items such as solvency, reputation and performance
- Documentation that shows the OOC (including at least one external member of the OOC) has evaluated the reinsurance intermediary for items such as financial condition and conflicts of interest with regard to reinsurance transaction, the reinsurer and the company
- Documentation that shows the company is in compliance with ch. Ins 47, Wis. Adm. Code, as appropriate
- Documentation showing that the OOC has provided periodic updates to the board regarding the reinsurance program and its performance for the company (i.e., the appropriateness of the reinsurance coverage, including the layers and compliance with ch. Ins 47, Wis. Adm. Code, etc.)

Action—Compliance.

4. Committees of the Board of Directors—It is again recommended that the OOC regularly review the performance of the CPA firm, consider the firm’s experience with audits of property-casualty insurance companies and make appropriate recommendations to the board regarding the selection of auditors.

Action—Compliance.

5. Administration Agreement—It is again recommended that the company take measures to ensure that the insurance policies secured by the general administrator contain the agreed upon 60-day cancellation notice.

Action—Noncompliance; see comments in the “Summary of Current Examination Results.”

6. Investments—It is recommended that the company establish a procedure to have the investment transactions formally reviewed and approved by the board of directors on at least a quarterly basis.

Action—Compliance.

7. Investments—It is recommended that the company report investment transactions in Schedule D of the annual statement based on the actual “trade date,” in accordance with SSAP No. 26 and SSAP No. 30.

Action—Compliance.

8. Underwriting—It is recommended that the Underwriting Guideline Policies and Procedures be maintained on a current basis and to incorporate any changes to the guidelines within the given section being updated.

Action—Compliance.

9. Underwriting—It is recommended that the company’s underwriting procedures be updated to clearly define how ratable operating expenses are to be calculated, including guidance on the discretion an underwriter may use in determining premium on an individual risk basis to ensure there is no unfair discrimination among policyholders as described in s. 628.34 (3) (a), Wis. Stat.

Action—Compliance.

10. Underwriting—It is further suggested that a procedure be established and implemented to address exceptions to the “Underwriting Procedures” when they occur. The procedure should include, but not be limited to:
- Real time approval for the exceptions from the Assistant Secretary or chairman of the Operations Oversight Committee;
 - Reports of exceptions to the Operations Oversight Committee at its next meeting; and
 - The Operations Oversight Committee annually review the components of the “Ratable Operating Expense” calculation to determine if adjustments need to be made to the base calculation as a result of the number of exceptions to the underwriting procedure during the previous year.

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.

Audit Engagement

In review of the company's engagement letter with its independent certified public accountant it was noted that the engagement letter included an indemnification clause. Under s. Ins 50.08 (1), Wis. Adm. Code, it states the commissioner may rule that an accountant or accounting firm is not qualified for purposes of expressing an opinion on the financial statements in the annual audited financial report required under this subchapter and prohibit insurers from retaining the accountant or an accounting firm, and require insurers to replace the accountant or accounting firm, if the commissioner finds there is cause, including, but not limited to, a finding that the accountant or accounting firm: (am) Has either directly or indirectly entered into an agreement of indemnification with respect to the audit of the insurer. It is recommended that the company enter into an audit engagement with an independent certified public accountant without an indemnification clause under the requirements of s. Ins 50.08 (1) (am), Wis. Adm. Code.

Administration Agreement

The four prior examinations contained a recommended that the company take measures to ensure that the insurance policies secured by the general administrator contain the 60-day cancellation notice as required per the company's General Administrative Agreement. In response to the recommendation the company stated they would amend their General Administrative Agreement and delete the 60-day notice requirement for cancellation of insurance policies clause. However, this agreement has not been amended by the company and still states that each insurance policy shall contain an endorsement that it may not be cancelled without 60 days' written notice to the company. The insurance policies reviewed provided the proper coverage but did not contain the 60-day notice requirement. It is again recommended that the company take measures to ensure that the insurance policies secured by the general administrator contain the agreed upon 60-day cancellation notice.

Business Plan

In review of the company's financial results it was noted that the company has continually experienced negative financial results since its inception in 2002. As mentioned earlier in the report, CIC entered into a loss transfer and 100% quota share agreement with its parent, WCMIC, on January 1, 2012. In accordance with the terms of the reinsurance agreement, CIC's financial results have been ceded to and combined with the financial results of its parent, resulting in CIC's own statutory filings showing zero net premiums, losses and expenses. To provide information for analyzing the results of its operations, as a condition of approving the reinsurance agreement, the Office of the Commissioner of Insurance requested that CIC submit pro-forma financial statements that show CIC's financial results without the effect of the intercompany reinsurance agreement. (Note: The pro-forma results do take into effect the reinsurance program that the company would have in place if it had not entered into the intercompany reinsurance agreement with WCMIC. This reinsurance program is the same program that is outlined in the WCMIC examination report.) A review of key operating metrics for the company since the prior exam as of date was conducted, on a pro-forma basis, and revealed that on a direct basis, the historical negative financial results have continued (see table below).

	2009	2010	2011	Pro-Forma* 2012	Pro-Forma* 2013
Net premium earned	\$3,363,745	\$ 2,814,106	\$2,524,427	\$2,771,210	\$ 4,202,995
Net losses	915,282	968,590	1,126,535	878,404	2,714,918
LAE incurred	1,947,811	1,621,992	1,124,399	1,270,551	2,460,309
Other U/W expenses	1,447,691	1,224,275	1,242,463	1,278,545	1,548,434
Total U/W deductions	4,310,784	3,814,858	3,493,396	3,427,501	6,723,661
Net U/W gain (loss)	(947,039)	(1,000,752)	(968,970)	(656,291)	(2,520,666)
Net income (loss)	(258,360)	(178,556)	(674,658)	(370,981)	(2,315,173)
Combined ratio	136.6%	138.9%	138.8%	120.9%	155.0%
Year-End Surplus	6,170,915	5,989,518	5,317,006	4,946,040	2,631,547

Over the examination period the company experienced, on a pro-forma basis, a total underwriting loss of \$6.1 million and a decrease in surplus of \$5.3 million, or 59%.

The examiner inquired of the company's General Administrator as to the existence of any formal projections for the performance of CIC as a whole and for the worker's compensation line of business in particular for the purpose of ascertaining when, or if, the company will achieve

profitability. Other than the overall budget and projected results for the subsequent year, it was stated that there are no specific or extensive projections as to future results that are prepared or presented to the Operations Oversight Committee or full board.

It is concluded that, given the lack of profitability for the company throughout its existence and the particularly volatile experience of the worker's compensation line of business, the company should be engaging in far more thorough pro-forma projections as to when the worker's compensation line, and the company as a whole, will attain profitability. It is recommended that the company prepare, on at least an annual basis, a pro-forma projection of its underwriting results and anticipated surplus and the effects on the financial results of its parent, for at least a subsequent three-year period, to be shared with the board of directors for monitoring and comparison with actual results in order for the board to make an informed decision about the company's future business operations.

VIII. CONCLUSION

Admitted assets and liabilities decreased significantly beginning in 2012 due to a 100% quota share ceding agreement the company entered into with its parent, Wisconsin County Mutual Insurance Corporation. Surplus has remained fairly steady during the examination period.

Gross premiums increased significantly in 2013 as the company began writing first-dollar worker's compensation coverage. Net and earned premium decreased to zero by 2013 due to the intercompany reinsurance agreement referenced above. The company has posted overall negative financial results over the examination period. They have posted a net loss in three of the five years under examination.

The examination of Community Insurance Company resulted in three recommendations, one of which was a repeat recommendation from the prior examination relating to an administration agreement. No adjustments to surplus or reclassifications were made as a result of the examination.

IX. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 30 - Audit Engagement—It is recommended that the company enter into an audit engagement with an independent certified public accountant without an indemnification clause under the requirements of s. Ins 50.08 (1) (am), Wis. Adm. Code.
2. Page 30 - Administration Agreement—It is again recommended that the company take measures to ensure that the insurance policies secured by the general administrator contain the agreed upon 60-day cancellation notice.
3. Page 32 - Business Plan—It is recommended that the company prepare, on at least an annual basis, a pro-forma projection of its underwriting results and anticipated surplus and the effects on the financial results of its parent, for at least a subsequent three-year period, to be shared with the board of directors for monitoring and comparison with actual results in order for the board to make an informed decision about the company's future business operations.

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
Bob McLaughlin	Insurance Financial Examiner
David Jensen	IT Specialist
Jerry DeArmond	Reserve Specialist

Respectfully submitted,

Terry Lorenz
Examiner-in-Charge