

Report  
of the  
Examination of  
Wisconsin County Mutual 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:

WISCONSIN COUNTY MUTUAL INSURANCE CORPORATION  
Madison, Wisconsin

and this report is respectfully submitted.

## I. INTRODUCTION

The previous examination of Wisconsin County Mutual Insurance Corporation (the company or WCMIC) 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 organized by member counties and the Wisconsin Counties Association (WCA) in 1987 under ch. 611, Wis. Stat., as an assessable municipal mutual. The company is licensed only in Wisconsin. On March 22, 1996, the commissioner approved WCMIC's conversion to nonassessable status. Initially, the company wrote only general liability policies. Effective January 1, 1997, following a change to the statutes, the company began offering excess worker's compensation coverage to member counties above a self-insured amount. The company also began marketing liability coverages to municipalities in 1998. In 2000, WCMIC introduced its Owner-Direct Insurance Program (ODIP), designed for county construction projects as a means to expand its liability and worker's compensation insurance opportunities to its members. In 2002, the company created a wholly owned subsidiary, Community Insurance Corporation (CIC), to expand its coverages to school districts and municipalities while maintaining its service to its core county business. As WCMIC policies for municipalities expired, most of the business was transferred to CIC. On November 26, 2003, the commissioner granted WCMIC the authority to also offer fire, inland marine and other property insurance pursuant to a change in authority allowed under s. 611.11 (4) (b), Wis. Stat.

Effective January 1, 2012, WCMIC entered into a loss portfolio and 100% quota share reinsurance agreement with CIC. Pursuant to the terms of the 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.

Section 611.23, Wis. Stat., exempts the company and other municipal mutual insurers from chs. 604 to 607, 612 to 619, 625, and 646, Wis. Stat., in order to facilitate such companies' formation, financing, and governance.

In Wisconsin, municipalities 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.

The company provides counties 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 range from \$1,000 to \$1,000,000 per county.
- 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.

WCMIC also offers retroactive coverages to its members. These retroactive coverages include general liability, errors and omissions, and automobile liability for years as far back as 1985. The retroactive coverages are made available to members 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 WCMIC policy even though the occurrence date was prior to WCMIC offering the coverage. The retroactive coverage includes coverage for employment discrimination and sexual harassment.

WCMIC requires members 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) 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 on 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 deductible fund is adjusted to determine the amount of replenishment needed to fund up to the deductible aggregate at policy renewal.

Current members in the liability program include 52 counties in the state of Wisconsin, which represent 72% of all Wisconsin counties. Fourteen counties participate in the

excess worker's compensation program. Lastly, 21 counties, 1 in home care program and 1 recycling center participate in the fully insured worker's compensation program.

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.

<b>Line of Business</b>	<b>Direct Premium</b>	<b>Reinsurance Assumed</b>	<b>Reinsurance Ceded</b>	<b>Net Premium</b>
Worker's compensation	\$ 5,530,545	\$2,353,891	\$1,146,013	\$ 6,738,423
Other liability – occurrence	5,704,127	2,361,401	1,281,903	6,783,625
Commercial auto liability	4,955,302	911,472	931,452	4,935,322
Auto physical damage	<u>                    </u>	<u>57,344</u>	<u>40,000</u>	<u>17,344</u>
<b>Total All Lines</b>	<b><u>\$16,189,974</u></b>	<b><u>\$5,684,107</u></b>	<b><u>\$3,399,368</u></b>	<b><u>\$18,474,713</u></b>

Each Wisconsin county which desires to purchase insurance from the company must meet the following eligibility requirements:

- The county is a member of WCA.
- The county board adopts a resolution that ratifies joining WCMIC.
- The member contributes the required premium.
- The membership is approved by the board of directors.

No member may withdraw from the company during the first three years of its membership. A member may only withdraw from the company upon 6 months' advance, written notice. WCMIC may cancel a member's participation upon a two-thirds vote of the board of directors with 60 days' advance notice.

WCMIC policies are marketed on a direct basis by Aegis Corporation (Aegis), its managing general agent (MGA), with the support of WCA. Aegis is discussed in the following section of the report headed "Management and Control." 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

General liability

- Bodily injury and property damage products/completed operations
- Contractual liability

ODIP products  
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; and assault and battery and intentional acts

Public official's errors and omissions including director and officer liability  
Health care institutions; and county-owned airports  
County officials appointed to serve on other boards and commissions on behalf  
of the county

Nursing home liability

Worker's compensation  
Standard worker's compensation  
Excess worker's compensation, for self-insured clients  
ODIP products

### III. MANAGEMENT AND CONTROL

#### Management

WCMIC 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 investment.

Since the company's inception, WCA has been contracted to provide general corporate management services. The services to be provided under the agreement are summarized as follows:

- A. Manage and oversee all WCMIC'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. WCA shall review and approve the expenditure of funds associated with any service contracted approved by the corporation's board prior to the disbursement of such funds.
- B. Oversee investment of WCMIC's assets.
- C. Provide customer services on behalf of WCMIC to counties and municipalities
- D. Coordinate board meetings.
- E. Arrange for legal services for the board.
- F. Arrange for insurance consultant services.
- G. Provide for and oversee marketing of WCMIC.
- H. Communicate with rating agencies.
- I. Recommend and draft board policies to ensure compliance with state and federal laws and regulations.
- J. Reimburse directors for personal travel expenses, subject to WCMIC reimbursement to WCA.
- K. Pay expenses for WCMIC subject to reimbursement.
- L. Issue communication to policyholders.
- M. Prepare periodic financial reports on the corporate management services.
- N. Receive and deposit all premium for the corporation.
- O. Monitor unclaimed property and submit annual filing to State Treasurer.
- P. Serve as staff for board.
- Q. Maintain an office as the corporate office for the corporation.
- R. Provide legislative services at both the state and federal level.

- S. Provide services to the ODIP program 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
- T. Arrange for training programs for the board of directors.

WCA owns WCA Services, Inc., which has a similar corporate management services agreement with WCMIC’s subsidiary, Community Insurance Corporation.

WCA is compensated according to the following schedule:

<b>Coverage</b>	<b>Compensation</b>
County liability	\$0.32 per \$1,000 of ratable operating expenses
County liability and property	\$0.40 per \$1,000 of ratable operating expenses plus \$0.0025 per \$100 of insured property values
Municipality liability	\$0.50 per \$1,000 of ratable operating expenses
Municipality liability and property	\$0.65 per \$1,000 of ratable operating expenses plus \$0.005 per \$100 of insured property values
Owner-direct insurance program	3.75% of the owner direct insurance premium
Fully insured worker’s compensation	Annual flat fee per insured of \$3,500 plus 0.04% of the payroll remuneration of each policyholder
Long-term care consortium liability	\$0.12 per \$1,000 of ratable operating expenditures
Excess worker’s compensation	2% of the standard W/C rate as established by the Worker’s Compensation Rating Bureau

The agreement is effective from January 1, 2015, through December 31, 2019, and may be opened for amendment at any time upon mutual agreement of both parties. WCMIC may terminate the agreement with 60 days’ written notice to WCA and WCA may terminate the agreement with 90 days’ written notice to WCMIC.

The table below depicts the ratio of WCA fees to direct premiums written (DPW) and net premiums earned (NPE) from 2009 through 2013.

	<b>2013</b>	<b>2012</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>
Mgt. fees	\$ 1,125,605	\$ 1,085,429	\$ 1,103,656	\$ 1,130,305	\$ 1,102,816
DPW	16,189,974	15,067,609	15,093,291	15,636,655	15,895,239
NPE	18,474,713	16,422,585	12,284,722	12,595,814	12,596,877
Fees/DPW	7.0%	7.2%	7.3%	7.2%	6.9%
Fees/NPE	6.1%	6.6%	9.0%	9.0%	8.8%

## Administration

Since 1992, 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. 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 WCMIC 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 WCMIC and WCMIC's expense, insurance and reinsurance coverages for protection of WCMIC's coverage, limits and financial well-being, provided that such procurement will be at the direction and approval of WCMIC.
- H. Provide monthly accounting for all income and expenses of WCMIC.
- I. Maintain books and records in a manner consistent with the Statements of Statutory Accounting Principles.
- J. Compute the annual premiums established by WCMIC.
- 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 WCMIC's subsidiary CIC.

Aegis is compensated according to the following schedule:

Coverage	Compensation
County liability	\$10,000 annual flat fee plus \$0.67 per \$1,000 of ratable operating expenses and \$0.79 per \$1,000 of ratable operating expenses of nursing homes, airport, and personal injury of those accepting the optional coverage
Long-term care consortium liability coverage	\$0.31 per \$1,000 of ratable operating expenses
Property insurance coverage including auto physical damage	\$2,500 annual flat fee plus \$.0025 per \$100 of total insured values
Auto physical damage insurance only	\$250 annual flat fee plus \$.0025 per \$100 of total insured values
Excess worker's compensation with services	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
Fully insured worker's compensation	An annual flat fee of \$10,000 per each policy issued plus 1.15% payroll remuneration (payroll will be determined off the "audited" payroll used to determine the most current "final audit" available, or if not available the estimated payroll used to process the policy)
Owner-direct insurance program	15% of the OPID premium (net of return premium)
Worker's compensation claim services (including owner-direct insurance program)	\$571 for lost time claims (including suffixes), \$232 for medical only claims (including suffixes), and \$30 for incident report
Liability claim services	\$517 for all liability claims (including suffixes up 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.
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	\$ 2,804,531	\$ 2,667,824	\$ 2,564,175	\$ 2,629,612	\$ 2,610,151
Claims fees	902,576	768,195	702,358	689,513	723,360
Total fees	3,707,106	3,436,018	3,266,532	3,319,124	3,333,511
DPW	16,189,974	15,067,609	15,093,291	15,636,655	15,895,239
NPE	18,474,713	16,422,585	12,284,722	12,595,814	12,596,877
Fees/DPW	22.9%	22.8%	21.6%	21.2%	21.0%
Fees/NPE	20.1%	20.9%	26.6%	26.4%	26.5%

## Board of Directors

The board of directors consists of 19 members; 17 Class A elected directors and 2 Class B advisory directors. Class A elected directors are elected county officials and Class B advisory directors are elected municipal officials.

To determine an appropriate allocation of Class A directors among its Class A members the company divided the state of Wisconsin into seven districts: southeast, east central, north central, northwest, west central, western, and southern district. Each district is allowed a number of directors approximately proportionate to the amount of premiums paid by members in the current policy year. Class A directors are elected at biennial district meetings held after organizational meetings of the county boards. The president of WCMIC will call a meeting of Class B members to elect the Class B directors. (Currently WCMIC does not have any Class B voting members; two representatives of municipalities are appointed as non-voting advisory members of WCMIC's board). Each director shall serve for a period of four years. Election of directors is staggered so that every two years half of the directors are up for election. The board members currently receive \$100 per diem plus allowed expenses for travel. 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:

<b>Name and Residence</b>	<b>Principal Occupation</b>	<b>Term Expires</b>
Leland Rymer, Chair * Oconto Falls, Wisconsin North Central District	Real Estate Broker	2018
David Albrecht * Oshkosh, Wisconsin East Central District	Retired	2018
William Barribeau Sherwood, Wisconsin East Central District	Retired Business Instructor Fox Valley Technical College	2018
Ted Cushing Hazelhurst, Wisconsin North Central District	Real Estate Broker	2018

<b>Name and Residence</b>	<b>Principal Occupation</b>	<b>Term Expires</b>
Harold Helwig Stone Lake, Wisconsin Northwest District	Retired Insurance Agent	2016
Wayne Hendrickson Unity, Wisconsin West Central District	Farmer	2016
Willie Johnson, Jr. * Milwaukee, Wisconsin Southeast District	Milwaukee County Supervisor	2018
Delores Kittleson Washburn, Wisconsin Northwest District	Retired	2016
Dick Koeppen * Clintonville, Wisconsin North Central District	Business Owner	2016
Paul Millan Armstrong Creek, Wisconsin North Central District	USPS Contractor	2018
Jess Miller Rice Lake, Wisconsin West Central District	Retired	2016
Lance Pliml * Wisconsin Rapids, Wisconsin North Central District	Real Estate Broker	2016
Raymond Ransom Merrilan, Wisconsin Western District	Retired	2018
Andy Ross Poynette, Wisconsin Southern District	Retired	2016
Edmund Wafle Mauston, Wisconsin Western District	Retired Real Estate Appraiser	2018
Thomas Wegner Plymouth, Wisconsin East Central District	Retired	2018
Wayne Wilson Argyle, Wisconsin Southern District	Retired Field Representative Wisconsin Counties Association	2016

<b>Name and Residence</b>	<b>Principal Occupation</b>	<b>Term Expires</b>
Gus Wirth, Jr. * Cedarburg, Wisconsin Southeast District	Corporate Executive	2018

**Advisory Members**

Gerald Derr Columbus, Wisconsin Municipal Advisory Member	Business Owner – Construction Materials Company	N/A
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Larry Oehmichen Colby, Wisconsin Municipal Advisory Member	Business Owner	N/A
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\* Albrecht, Johnson, Koeppen, Pliml, Rymer, and Wirth are on the board of directors of Wisconsin Counties Association (WCA), and Rymer is on the board of WCA Services, Inc. (WCASI). All of these members properly abstained from voting on matters regarding WCA and/or WCASI.

**Officers of the Company**

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

<b>Name</b>	<b>Office</b>
Leland Rymer	President
Lance Pliml	Vice President
William Barribeau	Secretary/Treasurer
Josh Bindl	Asst. Secretary

Officers are not compensated by the company for their services.

According to Article V, Section 5 of WCMIC's bylaws:

The Assistant Secretary shall be a non-voting member of the Board of Directors and shall be appointed by the Executive Director of WCA from its staff, in consultation with the officers of WCMIC. The Assistant Secretary shall provide services as specified by contract between WCMIC and WCA.

## 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

Leland Rymer, Chair\*  
William Barribeau\*  
Lance Pliml\*

### Investment Advisory Committee

Lance Pliml, Chair\*  
David Albrecht\*  
Rick Bauzemberger  
Patricia Craig  
Jeffrey French  
Michael Furgal  
Guy Gooding  
Willie Johnson, Jr.\*  
Carl Kietzmann  
Dirk Koeppen\*  
Mary Kay Poehlman  
Leland Rymer\*  
Ted Sauve  
Vilas Schroeder  
Eugene Smith  
Edmund Wafle\*  
Tom Wegner\*  
Fred Zaug

### Claims Advisory Committee

William Barribeau Chair\*#  
Colleen Brandt  
William Goehring  
Leroy Haeuser  
Harold Helwig\*#  
Wayne Hendrickson\*#  
David Hintz  
Willie Johnson, Jr\*#  
Delores Kittleson\*#  
Marie Koerner  
Amy Pechacek  
Raymond Ransom\*  
Steve Rasmussen  
Thomas Romdenne  
Peter Sorce  
Robert Warnke  
Wayne Wilson\*#

### Operations Oversight Committee

Lance Pliml, Chair\*  
Patrick Brennand (External Member)  
William Barribeau\*  
Richard Gilles (External member)  
Wayne Hendrickson\*  
Raymond Ransom\*  
Andy Ross\*

### Underwriting Committee

Thomas Wegner, Chair\*  
David Albrecht\*  
Fred Clary  
Brad Hamilton  
Wayne Hendrickson\*  
Ron Korzeniewski  
Jimmy Landru Jr.  
Jess Miller\*  
Paul Millan\*  
Victor Ouimette  
Lance Pliml\*  
Eugene Smith  
Fred Zaug

### Loss Prevention and Workers' Compensation Advisory Committee

Wayne Wilson, Chair\*  
Colleen Brandt  
Ted Cushing\*  
Gerald Derr\*  
Marion Flood  
Harold Helwig\*  
Richard Frey  
Vern Gove  
Brian Hoffmann  
Patty Isaacson  
Dennis Myers  
Ralph Prescott  
Elmer Ragen  
Leland Rymer\*  
Randy Scholz  
Paul Schwegel  
Terry Stelzer

\* Denotes directors serving as committee members.

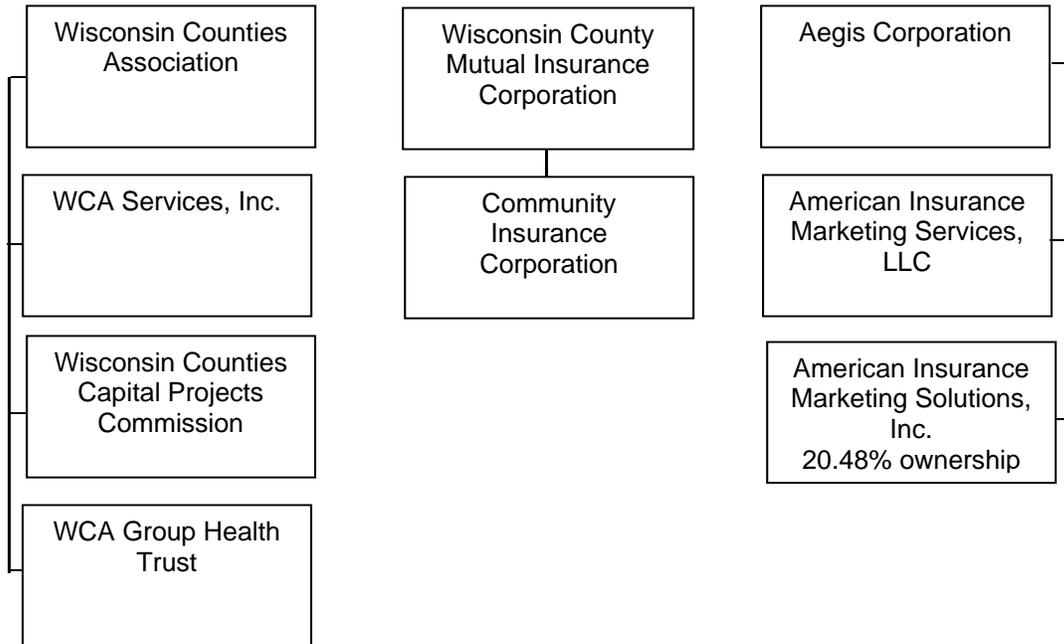
# Denotes directors also serving on the Claims Committee, a subset of the Claims Advisory Committee.

In accordance with the company's bylaws, the advisory committees listed above do not have authority to take action on matters reserved for the board of directors but rather the committees make recommendations to the board of directors or to a formal committee of the board for final approval. For example, the Claims Advisory Committee reviews detailed claim information and then makes a recommendation to the Claims Committee, which is comprised of all board members, for payment of the claim or further review by the full board of directors.

**IV. AFFILIATED COMPANIES AND KEY SERVICE PROVIDERS**

Wisconsin County Mutual Insurance Corporation is a member of a holding company system with its wholly owned subsidiary, Community Insurance Company. WCA and its subsidiaries and Aegis and its subsidiaries are key service providers. A brief description of CIC as well as WCMIC's key service providers and their affiliates follows the organizational chart.

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



**Community Insurance Corporation**

Community Insurance Corporation was formed by WCMIC to provide liability and worker's compensation coverages to municipalities and school districts of Wisconsin. CIC is licensed as a stock property and casualty insurance company under ch. 611, Wis. Stat., with WCMIC as the sole shareholder. CIC was incorporated on April 24, 2002, and commenced business on May 14, 2002. On November 26, 2003, the commissioner granted 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 terms of the 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, CIC's statutory annual statement reported assets of \$6,519,791, liabilities of \$786,782, and surplus of \$5,733,010. Operations for 2013 produced a net income of \$83,048.

### **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.

As of December 31, 2013, the financial statements were independently reviewed by a certified public accountant. WCMIC paid WCA \$1,122,663 in management fees during 2013 that amounted to 30% of WCA's revenue during that year.

#### **WCA Services, Inc.**

In order to provide additional services to counties, the WCA board of directors created WCA Services, Inc., 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.

In 2013, WCMIC and CIC management fees provided WCA and WCASI revenues of \$1,411,045, which amounts to 31% of WCA and WCASI's combined revenue.

### **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. Four members of the WCA Group Health Trust board of directors also sit on the WCMIC board of directors. Additionally, Josh Bindl, who serves as the Assistant Secretary on the WCMIC's board of directors, 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 Assuming Contracts

1. Type: Quota Share  
Cedant: Community Insurance Corporation  
Reinsurer: Wisconsin County Mutual Insurance Corporation  
Scope: 100% quota share, all business  
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

### Nonaffiliated Ceding Contracts

1. Type: Excess of Loss  
Reinsurer: Safety National Casualty Corporation  
Broker: Trean Reinsurance Services, LLC  
Scope: Worker's compensation, Owner-Direct Insurance Program (ODIP) and employers liability  
Retention: \$1,000,000 ultimate net loss per each occurrence  
Coverage: \$9,000,000 ultimate net loss per each occurrence  
Reinstatement: \$9,000,000 per any one occurrence  
Premium: 10.5% of subject DPW, with a minimum of \$767,550  
Deposit premium of \$903,000 payable in four installments on January 1, April 1, July 1 and October 1 in the amount of \$225,750  
Reinstatement premium: Percentage of the occurrence limit reinstated times the earned reinsurance premium for the term of the contract

- Effective date: January 1, 2014
- Termination: January 1, 2015
2. Type: Excess of Loss
- Reinsurer: Arch Reinsurance Company
- Broker: Trean Reinsurance Services, LLC
- Scope: Worker's compensation, Owner-Direct Insurance Program (ODIP) and employers liability
- Retention: \$10,000,000 ultimate net loss per each occurrence
- Coverage: \$10,000,000 ultimate net loss per each occurrence
- Reinstatement: \$10,000,000 per any one occurrence and \$20,000,000 per all occurrences during the term of this contract
- Premium: 2.0% of gross net premium earned, minimum \$137,600
- Deposit premium of \$172,000 payable in four equal installments of \$43,000
- Reinstatement premium: Percentage of the occurrence limit reinstated times the earned reinsurance premium for the term of the contract
- Effective date: January 1, 2014
- Termination: January 1, 2015
3. Type: 1<sup>st</sup> & 2<sup>nd</sup> Casualty Excess of Loss
- Reinsurer: Coverage A: Markel Ins. Co. 55%; Great American Ins. Co. 45%  
Coverage B: Markel Ins. Co. 100%
- Broker: Trean Reinsurance Services, LLC
- Scope: Comprehensive general liability, law enforcement legal liability E&O, automobile liability, public official E&O, miscellaneous professional liability & architects E&O liability
- Retention: Coverage A: \$750,000 ultimate net loss per each occurrence  
Coverage B: \$5,000,000 ultimate net loss per each occurrence  
\$25,000,000 for all occurrences during the term of this contract
- Coverage: Coverage A: \$4,250,000 ultimate net loss per each occurrence  
Coverage B: \$5,000,000 ultimate net loss per each occurrence  
\$30,000,000 for all occurrences during the term of this contract

Premium:	Coverage A: 9.89% of gross written premium, deposit of \$1,429,105 (installments of \$357,276.25) Coverage B: 4.31% of gross written premium, deposit of \$481,845 (payable in four equal installments of \$120,461.25)
Effective date:	January 1, 2014
Termination:	January 1, 2015
4. Type:	Cyber Excess of Loss
Reinsurer:	Great American Insurance Company
Broker:	Trean Reinsurance Services, LLC
Scope:	Web site publishing liability, security breach liability, public relations and security breach expense, regulatory defense, fine and penalty expense, replacement/restoration of electronic data, computer and funds transfer fraud
Retention:	\$100,000 of ultimate net loss, each occurrence
Coverage:	\$900,000 per occurrence, \$10,000,000 per contract
Premium:	\$150,000
Effective date:	January 1, 2014
Termination:	January 1, 2015
5. Type:	Facultative
Reinsurer:	Everest Reinsurance Company
Broker:	Trean Reinsurance Services, LLC
Scope:	Public entity liability, bodily injury and property damage, personal injury, errors & omissions, jail operations only – Monroe County jail operations
Retention:	\$2,000,000 per occurrence, \$3,000,000 aggregate
Coverage:	\$1,000,000 excess \$2,000,000 per occurrence, no aggregate limit
Premium:	\$50,000 per year
Commissions:	Brokers commission of 10%
Effective date:	January 1, 2014
Termination:	January 1, 2015

## **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."

**Wisconsin County Mutual Insurance Corporation**  
**Assets**  
**As of December 31, 2013**

	<b>Assets</b>	<b>Nonadmitted Assets</b>	<b>Net Admitted Assets</b>
Bonds	\$52,415,011	\$	\$52,415,011
Stocks:			
Common stocks	14,610,768		14,610,768
Cash, cash equivalents, and short-term investments	6,950,019		6,950,019
Investment income due and accrued	177,994		177,994
Premiums and considerations:			
Uncollected premiums and agents' balances in course of collection	30,451		30,451
Reinsurance:			
Amounts recoverable from reinsurers	24,841		24,841
Funds held by or deposited with reinsured companies	110,355		110,355
Furniture and equipment, including health care delivery assets	34,881	34,881	
Write-ins for other than invested assets:			
Deductible deposit receivable	1,218,382		1,218,382
Prepaid expenses	<u>14,355</u>	<u>14,355</u>	<u>                    </u>
Total Assets	<u>\$75,587,057</u>	<u>\$49,235</u>	<u>\$75,537,821</u>

**Wisconsin County Mutual Insurance Corporation**  
**Liabilities, Surplus, and Other Funds**  
**As of December 31, 2013**

Losses	\$16,957,037
Reinsurance payable on paid loss and loss adjustment expenses	1,057,770
Loss adjustment expenses	12,582,243
Other expenses (excluding taxes, licenses, and fees)	147,718
Unearned premiums	2,235,105
Advance premium	6,003,655
Dividends declared and unpaid:	
Policyholders	6,757
Ceded reinsurance premiums payable (net of ceding commissions)	291,041
Amounts withheld or retained by company for account of others	2,994,227
Write-ins for liabilities:	
Return premium payable – audits	<u>23,534</u>
Total liabilities	42,299,086
Unassigned funds (surplus)	<u>33,238,735</u>
Total Liabilities and Surplus	<u>\$75,537,821</u>

**Wisconsin County Mutual Insurance Corporation**  
**Summary of Operations**  
**For the Year 2013**

<b>Underwriting Income</b>		
Premiums earned		\$17,580,382
Deductions:		
Losses incurred	\$6,492,813	
Loss adjustment expenses incurred	5,758,405	
Other underwriting expenses incurred	<u>5,846,210</u>	
Total underwriting deductions		<u>18,097,428</u>
Net underwriting gain (loss)		(517,046)
<b>Investment Income</b>		
Net investment income earned	746,723	
Net realized capital gains (losses)	<u>356,876</u>	
Net investment gain (loss)		<u>1,103,599</u>
Net income (loss) before dividends to policyholders and before federal and foreign income taxes		586,553
Dividends to policyholders		<u>1,393,203</u>
Net Income (Loss)		<u>\$ (806,650)</u>

**Wisconsin County Mutual Insurance Corporation**  
**Cash Flow**  
**For the Year 2013**

Premiums collected net of reinsurance		\$19,699,473
Net investment income		1,021,780
Miscellaneous income		<u>57,355</u>
Total		20,778,607
Benefit- and loss-related payments	\$ 4,780,836	
Commissions, expenses paid, and aggregate write-ins for deductions	10,865,491	
Dividends paid to policyholders	<u>1,400,844</u>	
Total deductions		<u>17,047,171</u>
Net cash from operations		3,731,437
Proceeds from investments sold, matured, or repaid:		
Bonds	\$35,365,454	
Stocks	325,000	
Net gains (losses) on cash, cash equivalents, and short-term investments	<u>643</u>	
Total investment proceeds	35,691,097	
Cost of investments acquired (long-term only):		
Bonds	34,638,449	
Stocks	<u>970,644</u>	
Total investments acquired	<u>35,609,092</u>	
Net cash from investments		82,004
Cash from financing and miscellaneous sources:		
Other cash provided (applied)		<u>(865,862)</u>
<b>Reconciliation:</b>		
Net change in cash, cash equivalents, and short-term investments		2,947,579
Cash, cash equivalents, and short-term investments:		
Beginning of year		<u>4,002,440</u>
End of Year		<u>\$ 6,950,019</u>

**Wisconsin County Mutual Insurance Corporation  
Compulsory and Security Surplus Calculation  
December 31, 2013**

Assets		\$75,537,821
Less security surplus of insurance subsidiaries		5,733,010
Add security surplus excess of insurance subsidiaries		2,933,009
Less liabilities		<u>42,299,086</u>
 Adjusted surplus		 30,438,734
 Annual premium:		
Lines other than accident and health	\$17,081,510	
Factor	<u>20%</u>	
 Compulsory surplus (subject to a minimum of \$2 million)		 <u>3,416,302</u>
 Compulsory Surplus Excess (or Deficit)		 <u>\$27,022,432</u>
 Adjusted surplus (from above)		 \$30,438,734
 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>4,782,822</u>
 Security Surplus Excess (or Deficit)		          <u>\$25,655,912</u>

**Wisconsin County Mutual 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:

	<b>2013</b>	<b>2012</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>
Surplus, beginning of year	\$32,720,954	\$29,912,605	\$29,878,627	\$25,593,770	\$17,768,123
Net income	(806,650)	1,786,433	1,094,521	3,972,474	6,875,269
Change in net unrealized capital gains/losses	1,355,278	990,705	(1,099,759)	324,002	845,799
Change in non-admitted assets	(30,848)	31,212	39,216	(29,633)	18,613
Change in provision for reinsurance	_____	_____	_____	18,014	85,966
Surplus, End of Year	<u>\$33,238,734</u>	<u>\$32,720,954</u>	<u>\$29,912,605</u>	<u>\$29,878,627</u>	<u>\$25,593,770</u>

**Wisconsin County Mutual 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

<b>Ratio</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>
#1 Gross Premium to Surplus	66%	60%	50%	52%	62%
#2 Net Premium to Surplus	56	50	41	42	49
#3 Change in Net Premiums Written	12	34*	-2	0	-6
#4 Surplus Aid to Surplus	0	0	0	0	0
#5 Two-Year Overall Operating Ratio	97	90	85	63	62
#6 Investment Yield	1.0*	1.0*	1.1*	1.4*	1.8*
#7 Gross Change in Surplus	2	9	0	17	44
#8 Change in Adjusted Surplus	2	9	0	17	44
#9 Liabilities to Liquid Assets	62	58	55	54	61
#10 Agents' Balances to Surplus	0	0	0	0	0
#11 One-Year Reserve Development to Surplus	-4	-10	-6	-13	-24
#12 Two-Year Reserve Development to Surplus	-12	-11	-15	-33	-30
#13 Estimated Current Reserve Deficiency to Surplus	-11	-26	-16	-11	-5

Ratio No. 3 measures the increase in the current year net premium writings over the prior year value. The exceptional result in 2012 was 1% over the high-end of the benchmark range due to the assumption of business from a wholly owned subsidiary in a 100% quota share reinsurance agreement effective January 1, 2012.

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 of low interest yielding government securities and no investment income coming from its investment in its subsidiary, CIC.

### **Growth of Wisconsin County Mutual Insurance Corporation**

<b>Year</b>	<b>Admitted Assets</b>	<b>Liabilities</b>	<b>Surplus as Regards Policyholders</b>	<b>Policyholder Dividends</b>	<b>Net Income</b>
2013	\$75,537,821	\$42,299,086	\$33,238,735	\$1,393,203	\$ (806,650)
2012	69,953,463	37,232,509	32,720,954	1,226,980	1,786,433
2011	60,558,897	30,646,292	29,912,605	1,859,923	1,094,521
2010	57,431,853	27,553,226	29,878,627	1,412,582	3,972,474
2009	55,678,281	30,084,511	25,593,770	949,036	6,875,269
2008	49,631,704	31,863,581	17,768,123	1,514,747	4,397,626

<b>Year</b>	<b>Gross Premium Written</b>	<b>Net Premium Written</b>	<b>Premium Earned</b>	<b>Loss and LAE Ratio</b>	<b>Expense Ratio</b>	<b>Combined Ratio</b>
2013	\$21,874,081	\$18,474,713	\$17,580,382	69.7%	31.6%	101.3%
2012	19,581,840	16,422,585	15,150,225	51.3	32.3	83.6
2011	15,093,291	12,284,722	12,263,825	55.2	29.7	84.9
2010	15,636,655	12,595,814	12,665,085	40.0	29.9	69.9
2009	15,895,239	12,596,877	12,702,107	20.8	29.9	50.7
2008	16,795,639	13,451,718	13,523,265	45.3	28.3	73.6

Admitted assets grew 52% during the last five years, reaching \$76 million as of December 31, 2013, as compared to \$50 million as of December 31, 2008. Liabilities grew 33% during the last five years, reaching \$42 million at year-end 2013 as compared to \$32 million at the beginning of the examination period. The company's surplus has increased steadily over the five-year period to a high of \$33 million at year-end 2013.

Premiums increased significantly for the company beginning in 2012 as it began assuming 100% of the business of its wholly owned subsidiary, Community Insurance Corporation, as part of a quota share intercompany reinsurance agreement. The company's loss

and LAE ratio increased 18.4% in 2013 over 2012 due mainly to adverse development on a small number of prior year claims and an increase in IBNR reserves for the company's auto liability line of business. The large decrease in loss ratio in 2009 was due to the company significantly decreasing its reserves from all prior years. The company has posted overall positive financial results over the examination period. They have posted a net income in four 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 nine 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 recommended that the board of directors review and approve the interest rate credited to the escrow deductible fund accounts at least annually.

Action—Compliance.

2. 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 participates in the negotiation and placement of company reinsurance, including providing a recommendation to the board as to each such placement.
  - Actively participates 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.

3. 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.

4. 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.”

5. Lines of Business—It is therefore recommended that in the future the company only file its policy forms that are in compliance with Wisconsin insurance statutes and not falsely certify that the forms are in compliance in order to comply with s. 631.20, Wis. Stat.

Action—Compliance.

6. Lines of Business—It is recommended that the company report claim payments for Legal Loss Prevention Services as direct losses in accordance with SSAP No. 55.

Action—Compliance.

7. 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.

8. 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.

9. 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.

## **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 prior four 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, the examination found that 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.

## VIII. CONCLUSION

Admitted assets grew 52% during the last five years, reaching \$75 million as of December 31, 2013, as compared to \$50 million as of December 31, 2008. Liabilities grew 33% during the last five years, reaching \$42 million at December 31, 2013, as compared to \$32 million at the beginning of the examination period. The company's surplus has increased steadily over the five-year period to a high of \$33 million as of December 31, 2013.

Premiums increased significantly for the company beginning in 2012 as it began assuming 100% of the business of its wholly owned subsidiary, Community Insurance Corporation, as part of a quota share intercompany reinsurance agreement. The company's loss and LAE ratio increased 18.4% in 2013 over 2012 due mainly to adverse development on a small number of prior year claims and an increase in IBNR reserves for the company's auto liability line of business. The large decrease in loss ratio in 2009 was due to the company significantly decreasing its reserves from all prior years. The company has posted overall positive financial results over the examination period. They have posted a net income in four of the five years under examination.

The examination of Wisconsin County Mutual Insurance Company resulted in two recommendations, one of which was a repeat recommendation from the prior examinations 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 34 - 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 34 - 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.

## 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:

<b>Name</b>	<b>Title</b>
Bob McLaughlin	Insurance Financial Examiner
David Jensen	IT Specialist
Jerry DeArmond	Reserve Specialist

Respectfully submitted,

Terry Lorenz  
Examiner-in-Charge