



## The President's Message



As I reported to you in the last issue of the WiRe, the first quarter of this year was difficult for many of our clients due to very heavy snow accumulation, particularly in northern Wisconsin. One event saw over 30 inches of snow in a single day. Several companies lost over 30 buildings due to collapse. There also were ice dams and other winter-related losses that contributed to the results. The total effect of these losses is still being evaluated as the buildings and personal property are being repaired.

These losses had a direct impact on WRC's first quarter results. WRC incurred over \$7.2 million in losses in the quarter and sustained a net loss of \$1.6 million. Our combined ratio was a 127, which is the highest WRC has sustained in many years. This caused a loss to surplus of \$1.45 million for the quarter. Fortunately, the past few months have been relatively quiet, and we should see a marked improvement when we finalize our second quarter financials.

You will read later in this issue that WRC held its Annual Meeting in late April in Wisconsin Dells, which was attended by many of our shareholder clients. We were fortunate to have the new Wisconsin Commissioner of Insurance, Mark Afable, as our guest speaker. Commissioner Afable explained the focus of his office, addressed the current issues facing our industry and answered questions from those in attendance.

At this year's Annual Meeting, two of our directors did not seek reelection. George Tipler of Homestead Mutual stepped down after serving on our board for 33 years, with 14 years as our Chairman of the Board. James Viney of Sugar Creek Mutual stepped down after serving six years. I appreciate their guidance and involvement and will miss their contributions to the success of WRC. Elected to the board were three well-qualified individuals: Kathy Beach of Northern Finnish Mutual, Lisa Johnson of Yorkville & Mt. Pleasant Mutual and Marty Wynn of Meramec Valley Mutual. I look forward to working with them in the coming years.

Following the annual meeting, the WRC board of directors held their re-organizational meeting at which time Tony Wilke of United Mutual was elected Chairman of the Board and Howard Schwartz of Ellington Mutual was elected Vice Chairman of the Board. Both have served on the WRC board of directors for many years.

I encourage you to read the articles that are in this issue of the WiRe. We review in detail the Annual Meeting and the All Managers Meeting. The All Managers Meeting, which was held in early June, brings together the managing officers of all our client companies to discuss the current issues facing mutual insurance companies. There is an article on companies updating their forms and on cyber insurance. There also is an article on several educational events scheduled for August. You will find valuable information in all of these articles.

*photo courtesy of pixabay.com*



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# 2018 Annual Shareholders Meeting

The Annual Shareholders Meeting of Wisconsin Reinsurance Corporation (WRC) was held on April 24, 2019, at Glacier Canyon Lodge in Wisconsin Dells, Wisconsin. The meeting provided a setting for 141 shareholders and guests to review the operations of WRC for the past year and hear plans for the future.

President Terry Wendorff called the meeting to order at 9 a.m. Following the invocation and preliminary business, Chairman of the Board George Tipler introduced the current board of directors, reviewed the directors' duties and provided an overview of the WRC initiatives that contributed to the seventh consecutive year of underwriting profit. Chairman of the Nominating Committee Howard Schwartz then presented the following nominees for three-year terms as directors:



**Kathy Beach**  
*Northern Finnish Mutual in  
Marengo, Wisconsin*



**Lisa Johnson**  
*Yorkville & Mt. Pleasant Mutual  
in Union Grove, Wisconsin*



**Marty Wynn**  
*Meramec Valley Mutual in  
Hillsboro, Missouri*



George Tipler



Jim Viney

The nominees were unanimously elected to serve a three-year term of office.

After the election, George presented Jim Viney, formerly of Sugar Creek Mutual, with a plaque in appreciation of his service to WRC as a director from April 2013-19. Jim said it was an honor and a great experience to have served as a director of WRC, and he encouraged others to embrace the opportunity if it arises.

Terry then presented George Tipler of Homestead Mutual with a plaque in appreciation of his service to WRC as a director for 33 years (1986-2019), and for serving as WRC's chairman of the board from 2005-19. George reflected on his time with WRC and expressed appreciation for the good relationships with WRC's Board, staff and shareholders.

Ann Carlson, Vice President of Finance and Corporate Treasurer, presented the 2018 Annual Financial Report for the WRC Group. Todd Lentz, Senior Vice President of Reinsurance, reported on the reinsurance operations of WRC and highlighted how client mutuals and WRC are stronger together. Lisa Russell, 1<sup>st</sup> Auto Executive Vice President, presented an overview of 1<sup>st</sup> Auto's operations, as well as a brief update on the WRC Agency and WASI.

Wisconsin Commissioner of Insurance Mark Afable was the guest speaker. He provided an overview of the OCI's focus, and mentioned there are three pillars to the mission of the OCI: protecting consumers, educating consumers and maintaining a competitive, financially strong marketplace. Mark explained these pillars result in informed consumers who make better decisions, in insurance products that meet the diverse needs of consumers and in engaged stakeholders. The pillars help position Wisconsin as a great place to do business. Mark said his views about insurance regulation were developed from



Terry Wendorff



Mark Afable



## 2018 Annual Shareholders Meeting

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his experiences, and that the OCI and insurers are aligned in being fair to consumers.

Mark said the ways insurers leverage technology, including smartphones, risk mitigation tools and drones, can make insurance more accessible and affordable for consumers. He said the data from the technology, including the ability to harness predictive analysis and artificial intelligence, is valuable, and the security of consumer data and response to any data breach is important to consumers, insurers and the OCI. Mark briefly discussed the NAIC model cybersecurity law and the status of Wisconsin's similar law. He also discussed trends in the insurance marketplace, including mergers, restructuring and insuretech. The commissioner concluded his speech by expressing appreciation for the good relationship the OCI has had with the mutuals, encouraging the mutuals to contact the OCI if they have questions or concerns, thanking attendees and opening the floor for questions.

Jason Fogg, Executive Vice President, provided an overview of corporate governance and how it includes ERM, cybersecurity and oversight of corporate projects.

Terry wrapped up the business meeting with a report on the operations of The WRC Group for 2018. He described key elements to WRC's relationships with clients:

- 1 WRC learns from the past, builds on its foundation and strengths, works in the present to take advantage of opportunities and looks to the future.
- 2 WRC offers reinsurance to protect client mutuals when bad things happen and offers protection that changes as the mutuals change.
- 3 WRC's dedicated staff focuses on why we do things for your companies, your agencies and consumers.
- 4 WRC's many services are designed to help you run your operations rather than do it for you.

He suggested that if clients are not taking advantage of the services, they are wasting available resources. Terry reminded everyone that WRC as a reinsurer is fundamentally like insurers because it is concerned about underwriting, adequate rates, inspections, claims handling and effectively telling our story via marketing.

Terry reviewed WRC's mission: The WRC Group provides reinsurance, insurance products and related services to strengthen the insurance industry. He also shared our vision: We lead the way in building sound partnerships with innovative solutions. Terry highlighted that WRC works with client mutuals to get things done. He said that by working together, our stock

prices have steadily increased since 1991, and to date, WRC has paid over \$11 million in dividends. The goal is to build regular dividend payments to our stockholders.

Terry encouraged all client mutuals to focus on three things in the near future:

- 1 **Corporate governance:** This is where companies look at how decisions are made and how these decisions are being carried out.
- 2 **Technology and cybersecurity:** With the increased use of technology, cybersecurity is critical to keeping systems secure and keeping customer confidence.
- 3 **Cyber-liability policy:** Mutuals should purchase a policy so they get the help they need to remediate a cyber-security incident.

Terry said regulators will focus on these areas in upcoming audits of insurers. He concluded his report by reinforcing that WRC gets strength from the collective strength of its clients. He thanked the clients, the WRC board of directors and The WRC Group staff for their contributions to The WRC Group's success.

The meeting closed with a noon luncheon and presentation by motivational speaker Casey FitzRandolf. Casey was a 2002 Olympic gold medalist speed skater and now works in the insurance industry as an account executive for M3 Insurance in Madison. He said insurance, like intensive training for sports, requires management of risk.

Key takeaways of his speech were:

- 1 Successes and setbacks go hand in hand. You cannot have one without the other.
- 2 To achieve something, first you must believe it is possible.
- 3 Persistence in the belief that it can be done and that you can do it is important. It can be the difference between those who achieve the goal and those that don't.



Casey FitzRandolf

Casey drew additional parallels to insurance by telling anecdotes of how his competitors were willing to share their knowledge and expertise to help him improve. Those competitors, like our fellow insurers, recognized that we need one another and that working together to share expertise helps everyone improve.

## 2019 WRC All Manager Meeting



The 7th Annual WRC All Manager Meeting was held on June 4-6 at the Grand River Conference Center in Dubuque, Iowa. The meeting included two keynote speakers, four roundtable sessions, updates from The WRC Group, and ample networking for client company managers and six successor managers.

After welcoming the six new attendees to this year's meeting, Todd Lentz, Senior Vice President of Reinsurance, provided an overview of the 2018 financial results for The WRC Group, its clients, and the mutual insurance industry. He also briefly touched on an upcoming liability rate analysis that will be performed by WRC in addition to the rebranding of the "Mutual Survey" to "Reinsurance Underwriting Survey." Todd then discussed the reasoning behind the two-year contracts that were offered to some client companies for 2019 and 2020, and which circumstances would warrant a two-year contract in the future. He concluded his session by relaying that the 2020 contract wording will be clarified this year with the addition of Excess of Policy Limits (XPL) and Extra Contractual Obligations (ECO) language not previously included in prior contract wording. Further information on this wording will be sent to company managers as part of the next edition of the Mutual Manager Messenger.

Two roundtable sessions were featured Wednesday morning — Finding New Directors and Successfully Working with Vendors. During the first set of roundtables, managers discussed the qualifications they look for in new directors and where they begin the search. The importance of diversity on the board and a new director's ability to be an active member and fulfill the time requirement of this position were noted as key components of finding a new director.

During the second set of roundtables, managers discussed working with various types of vendors and the methods they use

to maintain successful partnerships. One of the most insightful comments by attendees was the importance of building a close relationship with vendors when things are going well, including communicating praise when earned. This makes it easier to address issues when they arise.

1<sup>st</sup> Auto & Casualty and WASI updates were interspersed with the morning roundtables. Lisa Russell, Executive Vice President of 1<sup>st</sup> Auto, discussed streamlining communications, the conversion to the new policy administration system and the benefits it provides to insureds and agents. Liz Guilfoyle, Director of Claims, informed the audience that WASI's Electronic First Report (eFR) system, which allows mutuals to submit liability claims electronically, is fully functional and contains records of all claims submitted to WASI since 2010. WASI is currently preparing for the second phase of this system update, which will focus on Medicare reporting.

After lunch, Matthew S. McLean of Thompson, Brody & Kaplan, LLP presented "Don't Let Mother Nature Collapse Your Subrogation Efforts." Matthew stressed that a successful subrogation effort starts immediately following the loss. If counsel is obtained early in the investigation, they can assist with coordinating experts, preserving evidence, evaluating recovery theories, and keeping investigation costs within reason. It is important to understand how the loss occurred to help identify the right experts for the claim.

In the case of a snow load claim, do not assume there is no subrogation potential because the collapse was caused by Mother Nature. Ask questions like, "Did the roof meet minimum snow load requirements?" or "What is the age of the building and components?". Structural engineers and meteorologists are two types of experts that may assist you with these claims. Managers discussed Matthew's presentation in the final roundtable session of the day. They emphasized one should





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never underestimate subrogation potential despite any past failed attempts.

Stacy Brieman, Senior Manager – Reinsurance Administration, led the group in a fun and informative ShareBase trivia contest to conclude the day. She focused on questions submitted by client companies since going live with ShareBase along with planned updates. Attendees congratulated Table 8 on winning ShareBase trivia later that evening while aboard The American Lady Yacht dinner cruise on the Mississippi River.

Marty Wynn, General Manager of Meramec Valley Mutual Insurance Company, aroused the interest of attendees on Thursday morning with his presentation, "Removing the Mystery of E-Marketing." He had an advertising slogan test for the group. "Get Met. It pays," was one of the most popular slogans noted, and Marty highlighted that it was only four words. He said effective slogans are seven words or less because attention spans are short, and you have limited time to tell your story. Marty delved further



The Sharebase Trivia winners were, from left, Peter Wolf, Steve Leadholm, Kathy Beach, Matt Morrison, Paul Rosenow and Mark Riedemann.

into the importance of e-marketing with a discussion of its ability to increase your company's brand recognition and competitive edge against larger insurance companies.

The final roundtable session of the meeting occurred immediately following Marty's presentation. This roundtable focused on building and keeping loyalty from independent agents. Client managers discussed using social media to direct current and potential policyholders to agents' links and contact information in addition to recognizing high performing agencies with good volume and loss ratios.

Thursday morning concluded with a few more updates from members of the Reinsurance Department. Jeff Blevins, Manager of Property Loss Consulting, informed the group about two hot topics in claims handling this year: 1) The abuse of the Assignment of Benefits to contractors and 2) Valued Policy Law in regard to a Raze Order in Wisconsin. Sherry Taylor, Manager of Underwriting Consulting, gave a brief update on the AAIS forms conversion process that many of our mutuals are undertaking. Wisconsin clients who are considering starting the conversion process should contact Sherry as other companies soon will be completing the process.

Finally, Terry Wendorff, President and CEO of The WRC Group, addressed the importance of corporate governance. He noted that state associations are now requesting mutual insurance companies to adopt and submit a plan for corporate governance. The plan should include the policies and guidelines under which a company's management intends to run the company. WRC will continue to monitor this topic as the exact information being requested is currently undetermined.

Thank you to all the managers and successor managers who attended WRC's 2019 All Manager Meeting this year in Dubuque. You helped make it an incredible event! If your manager did not attend, we encourage him/her to reach out to fellow managers to hear about their experience at the meeting and make plans to join us in the future.



Jeff Blevins



Sherry Taylor

# Changing Forms: How Two Mutual Companies Took the Plunge

by Melissa Stream, Underwriting Consultant

Last year a few ambitious managers asked for assistance with updating their homeowner policy forms. We recommend updating or converting only one policy program at a time. This article is about two managers: one was converting from Wisconsin WMS forms to AAIS forms; another was updating from an older AAIS edition to the 2008 edition. Sherry and I discussed the conversion process with both managers to help get them started. Once they started their process, we made follow-up calls to answer questions and assure the managers that we were available to assist them.

We have some charts available that compare forms from different programs, such as WMS Homeowner and AAIS Homeowners 2008 edition forms. We also have some sample disclosure notices, but we recommend that you go from one level of form to the same in the updated program. For instance, a homeowners policy that uses AAIS Form 2 ed. 2.0 should be converted to AAIS HO 0002 0908. We do not recommend changing from AAIS Form 2 ed. 2.0 to AAIS HO 0003 0908. A cancellation and re-written policy via a new application would work better in that situation.

For both companies, the time frame was more than a year. Choosing the effective date of renewals that you will use to start using the new forms is important. The company has to work back from that date to determine if they have sufficient time to complete all steps in the conversion process:

- » Review/compare newly available forms to current company-specific forms
- » Determine if a disclosure notice and conversion chart is available or if they have to be developed
- » Review and make any necessary changes to company manuals
- » Determine if any rate changes are needed due to forms change
- » Coordinate with your IT provider to ensure the forms and rates are in the policy processing system, so forms can be reordered if necessary
- » Provide agent and adjuster training if needed

Sherry and I provided agent training, during which we reviewed a forms flowchart to explain how a policy should be constructed, a base homeowner policy form, and several specific endorsements available in the homeowners program. I also made an office visit to assist a manager with converting the first batch of renewals to the updated forms.

I asked the managers if they had any tips or comments to share about their conversion experience as they've both started renewing policies with the updated forms.

*Make sure you start early enough! There's a lot to do to get all your ducks in a row. Be sure to read the disclosure notice(s) you're sending to insureds, because you will get phone calls."*

~ Ernie Commons,  
Holland Mutual Fire Insurance Company

*Preparation is important, but you won't be able to anticipate every problem that may come up once you start renewing policies with the updated forms. Once you run into those policies with issues, tackle as much as you can. You may have to note the file to address other issues in the following year's renewal. Melissa and Sherry are only a phone call away and are very knowledgeable and helpful.*

~ Barb Thornton,  
Bloomington Farmers Mutual Insurance Company



# Protect Yourself with Cyber Insurance

by Sara Mohrbacher, Vice President – WRC Agency



Cyberattacks are a modern version of crime. Protecting yourself from being victimized by cyber criminals is a priority, and cyber insurance can help. Cyber insurance has been a buzzword in the insurance industry and is often misunderstood. Not to mention that carriers that offer cyber insurance vary greatly in what they will and will not cover. As consumers, we want everything at our fingertips. Technology has provided ready access; yet that convenience makes it easier for criminals to steal data.

Historically, many standard first-party insurance policies, such as property and traditional crime, were designed to deal with threats to a company's tangible assets: buildings, machinery, office equipment and physical money. There has been little or no protection under these types of policies for loss, damage to data systems or theft of electronic funds. Most companies now rely a great deal on their digital assets, more so than their physical assets. As a result, cyber insurance is a necessity.

Interestingly, cyber claims figures show that less than 5% of cyber liability claims by volume involve third-party action (CFC Underwriting cyber claims statistics, 2017). Therefore, cyber "liability" is a misnomer. The top three types of cyber claims are for first-party losses only and fall under three broad categories:

**1 Theft of funds:** Theft of money from a company's bank account

**2 Theft of data:** Identity theft is at an all-time high. Names and addresses stored on a computer network are valuable. Throw in other types of data we collect such as birthdates, Social Security numbers, etc. — and it's a data mine!

**3 Damage to digital assets:** Insurance companies and agencies are dependent on their computer systems. By damaging or threatening to damage these systems, cyber criminals know they can extort money. Victims would rather pay a ransom than see their business grind to a halt. Even after paying up, costs to get their systems fixed can be high.

The costly part of a cyber event is often responding to the incident. Information technology specialists may have to be hired to stop the attack, protect against further damage and figure out what has been stolen. There is a cost to limit reputational damage, including notifying clients that their information has been stolen and offering identity theft protection solutions. Damage to digital assets claims includes the cost of the ransom as well as the costs to rebuild systems or data.

Cyber policies vary greatly in what is covered and to what limit.

However, most are built upon two types of coverage: **first-party coverages and third-party coverages**. Typical first-party coverage protects your company's own financial loss:

**Protect Yourself with Cyber Insurance**

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- » **Incident response:** Costs associated with responding to a cyber incident in real time, including IT security and forensic specialist support, legal advice in relation to breaches of data security and notification of individuals that have had their data stolen.
- » **Cyber extortion:** Costs incurred when criminals attempt to extort money from an insured. They may threaten to carry out a cyberattack or threaten to expose or destroy data after already compromising the victim's network.
- » **System damage:** Cost involved in getting insured's data and applications to be repaired and restored.
- » **System business interruption:** Reimbursement of loss of profits and increased costs of working as a result of a cyber event. Unlike a traditional business interruption, the trigger is a nonphysical peril instead of a physical one.

Typical third-party coverage protects the insured from liability actions against them. These can include:

- » **Network security and privacy liability:** It could include transmission of harmful malware to a third party's system or failing to prevent an individual's data from being breached.
- » **Regulatory fines:** Will cover costs of certain fines and penalties a regulatory agency has enforced on a company as a result of suffering a data breach.
- » **Media liability:** Coverage for third party claims that arise out of defamation or infringement of intellectual property rights.

Please note that cyber policies vary in what is covered and to what degree.

**In summary, what should your cyber policy cover?**

According to the NAIC (National Association of Insurance Commissioners):

- » Data breaches: Incidents involving theft of personal information
- » Cyberattacks: Breaches of your network
- » Cyberattacks on your data held by vendors and other third parties
- » Cyberattacks that occur anywhere in the world (not just the U.S.)
- » Terrorist acts
- » A cyber insurance provider that:
  - Defends you in a lawsuit or regulatory investigation (duty to defend)
  - Offers coverage in excess of any other insurance you have
  - Maintains a breach hotline 24/7

**What should a company look for when purchasing a cyber policy?****First-party coverages:**

- » Legal counsel to determine your notification and regulatory obligations
- » Recovery and replacement of lost or stolen data
- » Customer notification and call center services
- » Lost income due to business interruption
- » Crisis management and public relations
- » Cyber extortion and fraud
- » Forensic services to investigate the breach
- » Fees, fines and penalties related to the cyber incident

**Third-party coverages:**

- » Payments to consumers affected by the breach
- » Costs for litigation and responding to regulatory inquiries
- » Claims and settlement expenses relating to disputes or lawsuits
- » Other settlements, damages and judgments
- » Losses related to defamation and copyright or trademark infringement
- » Accounting costs

The WRC Agency can assist in placing your cyber insurance needs. Contact us today at [www.wrcagency.com](http://www.wrcagency.com) or (800) 329-7020 to speak with an agent today.



## Upcoming WRC Training Events

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At WRC, we often receive requests to provide training on various subjects. We strongly believe in continuing education for our client companies. Therefore, in addition to presenting sessions at various state association meetings, we are offering these focused education sessions:

### **Basic Commercial Coverage Training**

**August 6 • Madison, Wisconsin**

**August 15 • Wausau, Wisconsin**

This one-day course will dive into the commercial properties and commercial general liability coverage forms.

### **MLPA Seminar**

**August 29-30 • Wisconsin Dells, Wisconsin**

This year's MLPA Seminar will feature an environmental hygienist, Master Clean, Independent Forensic Investigations, plus discussions about community risk reduction and hoarding.

*Watch your email for registration announcements and reminders, plus be sure to log in to [www.thewrcgroup.com](http://www.thewrcgroup.com) and check the Events page for more information about each event.*

## **The WiRe is Going Digital!**

One of WRC's values is innovation, and we are putting that into practice by transitioning the WiRe from print to a digital format. This approach will provide you with easy access and convenience. Look for the next issue in your email inbox.

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Madison, WI 53707-7988

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MADISON WI  
PERMIT NO. 2783

# WiRe

Published by: Wisconsin Reinsurance Corporation and  
its subsidiary companies for its member companies.

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**Our offices will be closed in  
honor of the following holidays:**

Labor Day - September 2, 2019

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