

Report of the Examination of  
Forward Mutual Insurance Company  
Ixonía, Wisconsin  
As of December 31, 2020

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September 9, 2021

Honorable Mark V. Afable  
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:

FORWARD MUTUAL INSURANCE COMPANY  
Ixonia, Wisconsin

and this report is respectfully submitted.

## I. INTRODUCTION

The previous examination of Forward Mutual Insurance Company (Forward or the company) was conducted in 2011 as of December 31, 2010. The current examination covered the five-year period beginning on January 1, 2016, and ending on December 31, 2020, and it included a review of such subsequent transactions as deemed necessary to complete the examination.

The examination was conducted using a modified risk-focused approach in accordance with the National Association of Insurance Commissioners (NAIC) *Financial Condition Examiners Handbook*. This approach sets forth guidance for planning and performing the examination of an insurance company to evaluate the financial condition, assess corporate governance, and identify current and prospective risks (including those that might materially affect the financial condition, either currently or prospectively).

All accounts and activities of the company were considered in accordance with the modified risk-focused examination process. This process includes assessing significant estimates made by management and evaluating management's compliance with statutory accounting principles, annual statement instructions, and Wisconsin laws and regulations. The examination does not attest to the fair presentation of the financial statements included herein. During the course of the examination, if an

adjustment is identified, the impact of such adjustment will be documented separately at the end of the "Financial Data" section in the area captioned "Reconciliation of Surplus per Examination."

Emphasis was placed on those areas of the company's operations accorded a high priority by the examiner-in-charge when planning the examination. Special attention was given to the action taken by the company to satisfy the recommendations and comments made in the previous examination report.

The company is annually audited by an independent public accounting firm as prescribed by s. Ins 50.05, Wis. Adm. Code. An integral part of this compliance examination was the review of the independent accountant's work papers. Based on the results of the review of these work papers, alternative or additional examination steps deemed necessary for the completion of this examination were performed. The examination work papers contain documentation concerning the alternative or additional examination steps performed during the examination.

## II. HISTORY AND PLAN OF OPERATION

The company was organized as a town mutual insurance company on November 6, 1875, under the provisions of the then-existing Wisconsin Statutes. The original name of the company, Ixonia Mutual Fire Insurance Company, was later changed to Ixonia Mutual Insurance Company. Effective January 1, 2010, upon a separate approval of the policyholders of both companies, Watertown Mutual Insurance Company merged with and into Ixonia Mutual Insurance Company. The surviving corporation was Ixonia Mutual Insurance Company, which, upon the effective date of the merger, changed its name to Forward Mutual Insurance Company.

During the period under examination, there was one amendment to the articles of incorporation and to the bylaws, due to the company's conversion from a Chapter 612 town mutual insurer to a nonassessable Chapter 611 domestic insurer effective January 1, 2020.

In 2020, 100% of the company's direct premiums were written in Wisconsin. The major products marketed by the company include farmowners multiple peril and homeowners multiple peril lines. Currently, the major products are marketed through 15 independent agencies.

The following table is a summary of the net insurance premiums written by the company in 2020. 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>
Farmowners Multiple Peril	\$ 818,509	\$	\$223,652	\$ 594,857
Homeowners Multiple Peril	737,592		201,541	536,051
Boiler and Machinery	<u>39,897</u>	<u>—</u>	<u>39,897</u>	
Total All Lines	<u>\$1,595,998</u>	<u>\$0</u>	<u>\$465,090</u>	<u>\$1,130,908</u>

### III. MANAGEMENT AND CONTROL

#### Board of Directors

The board of directors consists of seven members. Two or three directors are elected annually to serve a three-year term. Officers are elected at the board's annual meeting.

Currently, the board of directors consists of the following persons:

<b>Name and Residence</b>	<b>Principal Occupation</b>	<b>Term Expires</b>
Mark D. Mallow Watertown, Wisconsin	Bowling Proprietor	2021
Dale H. Zastrow Watertown, Wisconsin	Cash Crop Farmer	2021
David W. Blank Ixonia, Wisconsin	Livestock and Cash Crop Farmer	2022
Randall L. Wegner Sullivan, Wisconsin	Livestock and Cash Crop Farmer	2022
Roger L. Degner Ixonia, Wisconsin	Cash Crop Farmer	2023
David P. Flood Oconomowoc, Wisconsin	Dairy Farmer	2023
Stephen M. Zillmer Watertown, Wisconsin	Retired Coop Manager	2023

#### Officers of the Company

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

<b>Name</b>	<b>Office</b>
Lois A. Wiedenhoeft	President and CEO
Stephen M. Zillmer	Chairman of the Board
Roger L. Degner	Vice Chairman of the Board
David W. Blank	Secretary and Treasurer

#### 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:

##### **Compensation Committee**

Stephen M. Zillmer, Chair  
Roger L. Degner  
David W. Blank  
Mark D. Mallow

##### **Executive Committee**

Stephen M. Zillmer, Chair  
Roger L. Degner  
David W. Blank

**Governance and Nomination Committee**

Mark D. Mallow, Chair

Dale H. Zastrow

David W. Blank

Randall L. Wegner

Roger L. Degner

David P. Flood

Stephen M. Zillmer



#### IV. REINSURANCE

The company's reinsurance portfolio and strategy at the time of the examination are described below. The contracts contained proper insolvency provisions.

##### Nonaffiliated Ceding Contracts

1. Type: Property Per Risk Excess of Loss  
Reinsurer: Grinnell Mutual Reinsurance Company  
Scope: All policies of the company classified as property insurance  
Retention: First \$200,000 of the ultimate net loss incurred by the company per risk  
Coverage: 1) 100% of the ultimate net loss incurred by the company in excess of the retention for each risk, subject to a maximum recovery of \$1 million  
2) 100% of the ultimate net loss incurred by the company in excess of \$1 million for each risk, subject to a maximum recovery of \$4 million  
3) 100% of the ultimate net loss incurred by the company in excess of \$5 million for each risk, subject to a maximum recovery of \$15 million  
Facultative reinsurance is required on risks greater than \$20 million  
Effective date: 1/1/2021  
Termination: 1/1/2022 or 90 days' written notice
2. Type: Property Catastrophe Excess of Loss Reinsurance  
Reinsurer: Grinnell Mutual Reinsurance Company  
Scope: All policies of the company classified as property insurance  
Retention: First \$500,000 of the ultimate net loss incurred per loss occurrence in excess of reinsurance recoveries  
Coverage: 100% of the ultimate net loss per loss occurrence in excess of retention. A loss occurrence is defined as the sum of all individual losses or series of losses sustained by the company during any period of 96 consecutive hours arising out of and directly occasioned by the same atmospheric event.  
Effective date: 1/1/2021  
Termination: 1/1/2022 or 90 days' written notice
3. Type: Property Aggregate Excess of Loss Reinsurance  
Reinsurer: Grinnell Mutual Reinsurance Company

- Scope: All policies of the company classified as property insurance
- Retention: \$1,000,000 ultimate net losses incurred, net of reinsurance recoveries
- Coverage: 100% of the ultimate net loss in excess of retention
- Effective date: 1/1/2021
- Termination: 1/1/2022 or 90 days' written notice
4. Type: Umbrella Quota Share Reinsurance Agreement
- Reinsurer: Grinnell Mutual Reinsurance Company
- Scope: Business classified as either commercial, personal or farm umbrella liability written in accordance with the company's guidelines, rates, and rules
- Retention: 1% of the company's net loss for each policy up to and including \$1 million
- Coverage: 99% Quota Share of the company's net loss for each policy up to and including \$1 million  
100% Quota Share for the company's net losses in excess of \$1 million  
Acts of Terrorism has a \$5 million limit during any one agreement year
- Effective date: 1/1/2021
- Termination: Until terminated with at least 90 days' written notice
5. Type: Liability Contract
- Reinsurer: Grinnell Mutual Reinsurance Company
- Scope: All policies of the company classified as liability insurance
- Retention: First \$10,000 of ultimate net loss each loss occurrence
- Coverage: 100% of the ultimate net loss in excess of retention  
Reinsurer's maximum liability shall not exceed \$1 million each loss occurrence except for farmowners policies where the maximum liability for the reinsurer is \$2 million each loss occurrence
- Effective date: 1/1/2021
- Termination: 1/1/2022
6. Type: Equipment Breakdown and Service Line Coverage
- Reinsurer: Factory Mutual Insurance Company

Scope: New and renewal equipment breakdown policies

Retention: None

Coverage: 100% Quota Share

Reinsurer's Limit of Liability

Farmowners: \$25,000,000

Homeowners: \$100,000

Service Line: \$10,000

Effective date: 1/1/2018

Termination: Until terminated with at least 90 days' written notice

## **V. FINANCIAL DATA**

The following financial statements reflect the financial condition of the company as reported to the Commissioner of Insurance in the December 31, 2020, annual statement. Adjustments made as a result of the examination are noted at the end of this section in the area captioned "Reconciliation of Surplus per Examination." Also included in this section are schedules that reflect the growth of the company, NAIC Insurance Regulatory Information System (IRIS) ratio results for the period under examination, and the compulsory and security surplus calculation.

**Forward Mutual Insurance Company**  
**Assets**  
**As of December 31, 2020**

	<b>Assets</b>	<b>Nonadmitted Assets</b>	<b>Net Admitted Assets</b>
Bonds	\$4,529,932	\$	\$4,529,932
Stocks:			
Preferred stocks	15,000		15,000
Common stocks	3,637,921		3,637,921
Real estate:			
Occupied by the company	269,634		269,634
Cash, cash equivalents, and short-term investments	287,137		287,137
Investment income due and accrued	35,510		35,510
Premiums and considerations:			
Uncollected premiums and agents' balances in course of collection	21,160		21,160
Deferred premiums, agents' balances, and installments booked but deferred and not yet due	146,514		146,514
Current federal and foreign income tax recoverable and interest thereon	32,800		32,800
Electronic data processing equipment and software	3,437		3,437
Furniture and equipment, including health care delivery assets	5,617	5,617	
Other receivable	8,144		8,144
Fire dues recoverable	832		832
<b>Total Assets</b>	<b><u>\$8,993,638</u></b>	<b><u>\$5,617</u></b>	<b><u>\$8,988,021</u></b>

**Forward Mutual Insurance Company  
Liabilities, Surplus, and Other Funds  
As of December 31, 2020**

Losses		\$ 151,418
Loss adjustment expenses		2,196
Commissions payable, contingent commissions, and other similar charges		47,616
Other expenses (excluding taxes, licenses, and fees)		21,000
Net deferred tax liability		113,000
Unearned premiums		686,728
Advance premium		34,374
Ceded reinsurance premiums payable (net of ceding commissions)		<u>29,495</u>
Total Liabilities		1,085,827
Unassigned funds (surplus)	<u>\$7,902,194</u>	
Surplus as Regards Policyholders		<u>7,902,194</u>
Total Liabilities and Surplus		<u>\$8,988,021</u>

**Forward Mutual Insurance Company  
Summary of Operations  
For the Year 2020**

<b>Underwriting Income</b>		
Premiums earned		\$1,145,825
Deductions:		
Losses incurred	\$833,929	
Loss adjustment expenses incurred	71,041	
Other underwriting expenses incurred	<u>552,733</u>	
Total underwriting deductions		<u>1,457,703</u>
Net underwriting gain (loss)		(311,878)
<b>Investment Income</b>		
Net investment income earned	133,247	
Net realized capital gains (losses)	<u>87,344</u>	
Net investment gain (loss)		220,591
<b>Other Income</b>		
Finance and service charges not included in premiums	18,383	
Write-ins for miscellaneous income:		
Paycheck Protection Program	<u>44,000</u>	
Total other income		<u>62,383</u>
Net income (loss) before dividends to policyholders and before federal and foreign income taxes		<u>(28,904)</u>
Net income (loss) after dividends to policyholders but before federal and foreign income taxes		(28,904)
Federal and foreign income taxes incurred		<u>3,844</u>
Net Income (Loss)		<u>\$ (32,748)</u>

**Forward Mutual Insurance Company**  
**Cash Flow**  
**For the Year 2020**

Premiums collected net of reinsurance		\$1,135,339
Net investment income		157,510
Miscellaneous income		<u>62,383</u>
Total		1,355,232
Benefit- and loss-related payments	\$726,911	
Commissions, expenses paid, and aggregate write-ins for deductions	650,498	
Federal and foreign income taxes paid (recovered)	<u>(33,456)</u>	
Total deductions		<u>1,343,953</u>
Net cash from operations		11,279
Proceeds from investments sold, matured, or repaid:		
Bonds	\$520,000	
Stocks	<u>452,000</u>	
Total investment proceeds		972,000
Cost of investments acquired (long- term only):		
Bonds	477,164	
Stocks	<u>503,407</u>	
Total investments acquired		<u>980,571</u>
Net cash from investments		(8,571)
Cash from financing and miscellaneous sources:		
Other cash provided (applied)	<u>(50,287)</u>	
Net cash from financing and miscellaneous sources		<u>(50,287)</u>
<b>Reconciliation:</b>		
Net Change in Cash, Cash Equivalents, and Short-Term Investments		(47,579)
Cash, cash equivalents, and short-term investments:		
Beginning of year		<u>334,716</u>
End of Year		<u>\$ 287,137</u>



**Forward Mutual Insurance Company  
Compulsory and Security Surplus Calculation  
December 31, 2020**

Assets		\$8,988,021
Less liabilities		<u>1,085,827</u>
Adjusted surplus		7,902,194
Annual premium:		
Lines other than accident and health	\$1,130,908	
Factor	<u>20%</u>	
 Compulsory surplus (subject to a minimum of \$2 million)		 <u>2,000,000</u>
 Compulsory Surplus Excess (Deficit)		 <u>\$5,902,194</u>
Security surplus (140% of compulsory surplus, factor reduced 1% for each \$33 million in premium written in excess of \$10 million, with a minimum factor of 110%)		  <u>2,800,000</u>
 Security Surplus Excess (Deficit)		  <u>\$5,102,194</u>

**Forward Mutual Insurance Company  
Analysis of Surplus  
For the Five-Year Period Ending December 31, 2020**

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

	2020	2019	2018	2017	2016
Surplus, beginning of year	\$7,877,626	\$7,236,419	\$6,983,086	\$6,422,859	\$5,880,445
Net income	(32,748)	355,612	384,792	267,646	270,815
Net transfers (to) from protected cell accounts					
Change in net unrealized capital gains/losses	114,386	289,551	(132,647)	296,367	269,904
Change in net deferred income tax	(1,000)				
Change in nonadmitted assets	1,930	(3,956)	1,188	(3,786)	1,695
January 1, 2020 Deferred tax adjustment	<u>(58,000)</u>	<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>                    </u>
Surplus, End of Year	<u>\$7,902,194</u>	<u>\$7,877,626</u>	<u>\$7,236,419</u>	<u>\$6,983,086</u>	<u>\$6,422,859</u>

**Forward Mutual Insurance Company  
Insurance Regulatory Information System  
For the One-Year Period Ending December 31, 2020**

The company's NAIC Insurance Regulatory Information System (IRIS) results for the period under examination are summarized below. There was one unusual result.

Ratio	2020
#1 Gross Premium to Surplus	20%
#2 Net Premium to Surplus	14
#3 Change in Net Premiums Written	-1
#4 Surplus Aid to Surplus	0
#5 Two-Year Overall Operating Ratio	89
#6 Investment Yield	1.5*
#7 Gross Change in Surplus	0
#8 Change in Adjusted Surplus	0
#9 Liabilities to Liquid Assets	11
#10 Agents' Balances to Surplus	0
#11 One-Year Reserve Development to Surplus	0
#12 Two-Year Reserve Development to Surplus	0
#13 Estimated Current Reserve Deficiency to Surplus	-1

Ratio No. 6 measures the company's investment yield for the current year. The exceptional result in 2020 was largely due to the low interest rate environment.

<b>Growth of Forward Mutual Insurance Company</b>				
<b>Year</b>	<b>Admitted Assets</b>	<b>Liabilities</b>	<b>Surplus as Regards Policyholders</b>	<b>Net Income</b>
2020	\$8,988,021	\$1,085,827	\$7,902,194	\$(32,748)
2019	8,779,213	901,587	7,877,626	355,612
2018	8,138,812	902,393	7,236,419	384,792
2017	7,929,579	946,493	6,983,086	267,646
2016	7,482,219	1,059,360	6,422,859	270,815

<b>Year</b>	<b>Gross Premium Written</b>	<b>Net Premium Written</b>	<b>Net Premium Earned</b>	<b>Loss and LAE Ratio</b>	<b>Expense Ratio</b>	<b>Combined Ratio</b>
2020	\$1,595,998	\$1,130,908	\$1,145,825	79%	43%	122%
2019	1,611,388	1,146,762	1,167,898	36	49	85
2018	1,676,069	1,171,727	1,178,545	30	48	78
2017	1,745,231	1,138,868	1,182,048	42	51	93
2016	1,778,186	1,172,444	1,185,757	34	51	85

In 2020, Forward reported a 122% combined ratio and \$(32,748) net income. Both figures were significantly worse than year-end 2019, when the company reported a combined ratio and net income of 85% and \$355,612, respectively. The unfavorable operating results are divergent from the company's usual range due to an increase in fire losses. In 2020, the company experienced three dwelling fires, along with fires impacting a barn, a shed, a combine, and a skid loader. In comparison, Forward had one major dwelling fire loss in 2019. Forward's 2020 fire loss experience appears to be an outlier.

### **Reconciliation of Surplus per Examination**

No adjustments were made to surplus as a result of the examination.

## VI. SUMMARY OF EXAMINATION RESULTS

### Compliance with Prior Examination Report Recommendations

There were four 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. Cash and Invested Cash—It is recommended that the company report all money market mutual funds in accordance with SSAP No. 2 in future statutory financial statements.

Action—Compliance.

2. Cash and Invested Cash—It is recommended that the company report all certificates of deposit with maturity dates in excess of one year from the date of acquisition as bonds on the Assets Page and in Schedule D – Part 1 in future annual statements, in accordance with SSAP No. 26.

Action—Compliance.

3. Book Value of Bonds—It is recommended that the company report bond purchases on Schedule D – Part 1 on the trade date in accordance with SSAP No. 26.

Action—Compliance.

4. Net Unpaid Losses—It is recommended that the company establish, by resolution of its board of directors, guidelines as to the circumstances under which a proof of loss is to be requested.

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.

### **Custodial Agreement**

The company has a safekeeping agreement with its custodial bank. The examination reviewed the company's Custodial Agreement with its custodial bank and identified that the agreement does not contain all the provisions recommended by the National Association of Insurance Commissioners (NAIC) *Financial Condition Examiners Handbook*.

It is recommended that the company amend its Custodial Agreement to conform with standards set forth by the NAIC *Financial Condition Examiners Handbook*.

### **Reinsurance Recovered**

The examination reviewed the company's 2020 Annual Statement. It was determined that the Underwriting and Investment Exhibit – Part 2 incorrectly allocated the company's total reinsurance recovered. As of December 31, 2020, the company understated its reinsurance recovered for its homeowners multiple peril line of business and overstated its reinsurance recovered for its farmowners multiple peril line of business. The total amount of reinsurance recovered was correct and there was no impact on the company's reported surplus. It is recommended that the company report its reinsurance recoverables correctly between its farmowners and homeowners lines of business in accordance with the NAIC Annual Statement Instructions—Property/Casualty.

## **VII. CONCLUSION**

Forward Mutual Insurance Company is a mutual insurance company located in Ixonia Wisconsin. The company's main products are Farmowners and Homeowners Multiple Peril. During the period under examination, there was one amendment to Forward's Articles of Incorporation and Bylaws, due to the company's conversion from a Chapter 612 town mutual insurer to a non-assessable Chapter 611 insurer effective January 1, 2021.

Over the past five years, the company's surplus increased by 34% from \$5,880,445 to \$7,902,194. The company posted net income in four of the past five years. However, in 2020, the company reported a net loss largely due to underwriting results.

The current examination resulted in two recommendations related to the clauses contained in the company's custodial agreement and the company's reporting of reinsurance recovered.

## VIII. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 20 - Custodial Agreement—It is recommended that the company amend its Custodial Agreement to conform with standards set forth by the NAIC *Financial Condition Examiners Handbook*.
2. Page 20 - Reinsurance Recovered—It is recommended that the company report its reinsurance recoverables correctly between its farmowners and homeowners lines of business in accordance with the NAIC Annual Statement Instructions—Property/Casualty.



## IX. 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>
Kenton Harrison	Insurance Financial Examiner
Dan Hanes	Insurance Financial Examiner
Eleanor Lu, CISA	IT Specialist
Karl Albert, CFE	Quality Control Specialist
Jerry DeArmond, CFE	Reserve Specialist

Respectfully submitted,



Mike Miller  
Examiner-in-Charge