

Report of the Examination of
Rural Mutual Insurance Company
Madison, Wisconsin
As of December 31, 2019

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February 24, 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:

RURAL MUTUAL INSURANCE COMPANY
Madison, Wisconsin

and this report is respectfully submitted.

I. INTRODUCTION

The previous examination of Rural Mutual Insurance Company (Rural or the company) was conducted in 2015 as of December 31, 2014. The current examination covered the intervening period ending December 31, 2019, and included a review of such subsequent transactions as deemed necessary to complete the examination.

The examination was conducted using a 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, identify current and prospective risks (including those that might materially affect the financial condition, either currently or prospectively), and evaluate system controls and procedures used to mitigate those risks.

All accounts and activities of the company were considered in accordance with the risk-focused examination process. This may include 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. If during the course of the examination 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.

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 in 1934 as the Farm Bureau Mutual Insurance Company of Wisconsin. In 1947 the name was changed to Rural Mutual Casualty Insurance Company of Wisconsin. The Rural Mutual Fire Insurance Company was incorporated in 1947. In July 1957 it was merged with Rural Mutual Casualty Insurance Company of Wisconsin to form Rural Mutual Insurance Company. Rural Casualty Insurance Company was incorporated in September 1961 and was merged into Rural Mutual Insurance Company in 1970.

Rural writes personal, farm, and commercial lines of business in Wisconsin only, and is the largest farm writer in the state. The company has been emphasizing product diversification with a target of having an even distribution between personal, commercial, and farm lines. Farm lines include farmowners, farm excess, and crop hail. The commercial book of business is comprised of non-farm small commercial lines including worker's compensation, light commercial coverages, and township coverages. Policyholder membership in the Wisconsin Farm Bureau Federation is a prerequisite for automobile, crop hail, home, country estate, farmers comprehensive property, liability lines and businessowners policies for certain members such as towns and villages. Other coverages are available to the general public.

All policies are written on a non-assessable basis and are marketed through approximately 160 exclusive agents. All coverages except worker's compensation are written at independently filed rates. Worker's compensation is written at bureau rates. The company offers worker's compensation dividend payments based on loss ratio and size of risk. Although the company does not write business outside of Wisconsin, it has obtained a certificate of authority for the states of Illinois and Minnesota in order to satisfy requirements in those states pertaining to farm or commercial policyholders that engage in interstate business endeavors. In 2019, the company wrote direct premium in the state of Wisconsin of \$214 million.

The following table is a summary of the net insurance premiums written by the company in 2019. The growth of the company is discussed in the “Financial Data” section of this report.

Line of Business	Direct Premium	Reinsurance Assumed	Reinsurance Ceded	Net Premium
Allied lines	\$ 3,034,805	\$2,191,164	3,040,004	2,185,965
Farmowners multiple peril	68,807,499		13,535,641	55,271,858
Homeowners multiple peril	19,861,242		2,927,914	16,933,328
Commercial multiple peril	32,740,346		6,298,041	26,442,305
Other accident and health	715,794			715,794
Worker’s compensation	31,999,501		2,389,923	29,609,578
Private passenger auto liability	18,306,069		575,986	17,730,083
Commercial auto liability	10,824,116	18,516	1,336,466	9,506,166
Auto physical damage	<u>27,405,223</u>	<u> </u>	<u>737,093</u>	<u>26,668,130</u>
Total All Lines	<u>\$213,694,595</u>	<u>\$2,209,680</u>	<u>\$30,841,068</u>	<u>\$185,063,207</u>

III. MANAGEMENT AND CONTROL

Board of Directors

The board of directors consists of nine members. Three directors are elected annually to serve a three-year term. Officers are elected at the board's annual meeting. Members of the company's board of directors are also members of the Wisconsin Farm Bureau Federation (WFBF) Cooperative's board of directors. Board members elected to office for the first time on or after December 6, 2010, are no longer provided or permitted to enroll in Rural's group health insurance plan. These newly elected directors are instead paid a director's fee of \$1,250 per month (\$1,500 for the first vice president). All other board members have the option to either remain enrolled in Rural's group health insurance plan or cancel the health insurance coverage and receive the monthly director's fees. If the cost of any director's monthly health insurance premium is less than the amount of the applicable monthly director's fee, the difference is paid to the director in quarterly installments. In addition, every board member is enrolled in Rural's group term life insurance plan which provides term life insurance coverage in the face amount of \$37,500. This life insurance benefit reduces beginning at the age of 65.

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

Name and Residence	Principal Occupation	Term Expires
Joe H. Bragger Independence, Wisconsin	Farmer	2020
Dave E. Daniels Union Grove, Wisconsin	Dairy Farmer	2021
Peter M. Kimball Baldwin, Wisconsin	Dairy Farmer	2022
Ryan R. Klussendorf Medford, Wisconsin	Dairy Farmer	2022
Kevin D. Krentz Berlin, Wisconsin	Dairy Farmer	2021
Roseann M. Lisowe Chilton, Wisconsin	Dairy Farmer	2020
Archie A. Morton, Jr. Janesville, Wisconsin	Dairy Farmer	2020
Robert D. Nigh Viroqua, Wisconsin	Dairy Farmer	2021

Name and Residence	Principal Occupation	Term Expires
Brian A. Preder Weyauwega, Wisconsin	Agriculture Product Manager	2022

Officers of the Company

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

Name	Office
Joe H. Bragger	President
Louis K. Korth	Vice President – Chief Actuary & Treasurer
Dale M. Beaty	Secretary
Daniel J. Merk	Executive Vice President & Chief Executive Officer
Dave E. Daniels	First Vice President
Robert J. Larson	Vice President – Information Systems
Ariella Schreiber	Vice President – Claims
Gail M. Luedke	Vice President – Underwriting
Jason C. Feist	Vice President – Customer Acquisition & Service

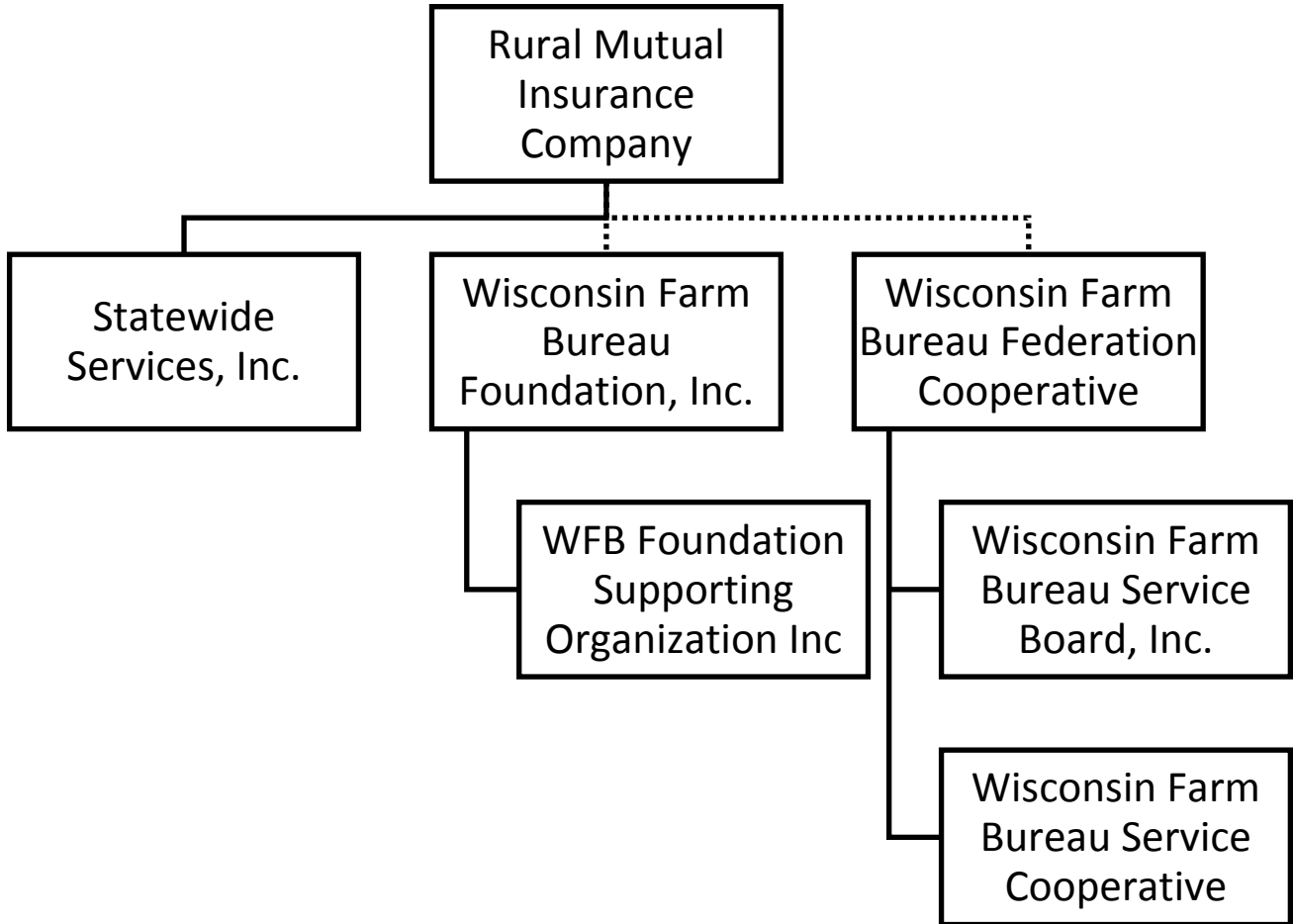
Committees of the Board

The company had no board committees at the time of the examination.

IV. AFFILIATED COMPANIES

The company owns 100% of Statewide Services, Inc., and is affiliated with the Wisconsin Farm Bureau Federation Cooperative (WFBF) through common management and control. The organizational chart below depicts the relationships among the affiliates in the group. A brief description of the company's affiliates follows the organizational chart.

**Organizational Chart
As of December 31, 2019**



Statewide Services, Inc.

Statewide Services, Inc. (SSI) was incorporated in April 1973 to provide brokerage services for Rural by placing business written by Rural agents with outside insurers as necessary, and to place business for the WFBF and its affiliates with Rural when possible and with outside companies as necessary. SSI also provides third-party claims administration services to other insurance companies. The board of directors consists of nine persons, all of whom are members of both the WFBF and Rural board of directors.

As of December 31, 2019, the unaudited financial statements of Statewide Services, Inc., reported assets of \$322,140, liabilities of \$277,049, and stockholders' equity of \$45,091. Operations for 2019 produced net income of \$132,988. In 2019, SSI paid dividends in the amount of \$120,000 to Rural.

Wisconsin Farm Bureau Federation Cooperative

Wisconsin Farm Bureau Federation Cooperative (WFBF) is referred to as the parent company of the Farm Bureau Organization. WFBF is an organization run by farmers to work with political parties and government agencies to communicate farmers' views on issues affecting the agricultural community. In addition to insurance, WFBF has associations with companies in the farm services business.

WFBF was organized on May 27, 1920, and incorporated in December of that year as a nonstock, nonprofit cooperative. WFBF is financed and controlled by its members who elect a board of directors consisting of 11 members, nine of whom also serve on the Rural board of directors. Membership in WFBF is required in order to purchase farmowners, country estate, crop hail, home, auto coverages and businessowners policies for certain members such as towns and villages from Rural. There are 61 County Farm Bureaus affiliated with the WFBF.

The cooperative's fiscal year is from October 1 to September 30. As of September 30, 2019, the audited consolidated financial statements of WFBF and its subsidiaries reported assets of \$4,080,714, liabilities of \$993,959, and net assets of \$3,086,755. Operations for 2019 produced an increase in net assets of \$233,980.

Wisconsin Farm Bureau Service Board, Inc.

Wisconsin Farm Bureau Service Board (WFBSB) was incorporated on March 8, 1943. It is a nonprofit service corporation and 100% owned by WFBF. WFBSB exists to coordinate the activities of WFBF and its affiliated companies. Membership of the WFBSB includes officers of the WFBF-associated companies and is composed of Joe Bragger, Dave Daniels, Dale Peterson, Dan Merk, and Dale Beaty. WFBSB receives management fees from WFBF-affiliated companies and royalties from some other insurance companies that write products endorsed by the WFBF for Farm Bureau members.

Wisconsin Farm Bureau Service Cooperative

Wisconsin Farm Bureau Service Cooperative (WFBSB), incorporated in 1944, is a for-profit cooperative that is 100% owned by WFBF. WFBSB is a service company that offers member benefits to WFBF members under license from WFBF and provides clerical and administrative services to local county farm bureaus.

Wisconsin Farm Bureau Foundation, Inc.

Wisconsin Farm Bureau Foundation, Inc. (WFBFD), established in 1988, is a nonprofit entity affiliated with WFBF. WFBFD was organized for and has a mission to support agricultural education and leadership programs.

WFB Foundation Supporting Organization, Inc.

WFB Foundation Supporting Organization, Inc. (WFBFSO) is a nonprofit supporting organization established in 2011. WFBFSO is organized and operated exclusively to support the WFBF and the betterment of agriculture in the state of Wisconsin.

Agreements with Affiliates

Operational Agreement

Rural has an operational agreement with SSI effective January 1, 1979, whereby Rural agrees to provide the services of employees and operating expenses for SSI. The company's compensation for providing these services is 80% of all net retained commissions of SSI. The agreement is automatically extended and renewed on a year-to-year basis unless terminated or amended by the parties. The agreement was amended January 1, 2009, to clarify the settlement of intercompany balances.

Consolidated Income Tax Return Agreement

There is a consolidated income tax return agreement between Rural and SSI, effective as of January 28, 1987, whereby SSI pays the company for an amount not to exceed the amount of tax it would have paid had a tax return been filed on a separate return basis. The agreement is in effect for each taxable year for which a consolidated return is filed unless the agreement is amended or terminated.

Royalty Agreement

A royalty agreement between Rural and WFBF, effective January 1, 2019, permits Rural to exclusively use the "Farm Bureau" name or "FB" logo in Wisconsin for marketing property and casualty insurance, in exchange for an annual royalty payment of 0.4% of the preceding year's total direct premium written to WFBF. The agreement is automatically renewed for a successive 12-month term unless written notice of nonrenewal is provided to either party no later than 90 days prior to the automatic renewal date.

Shared Services Agreement

A shared services agreement between Rural and WFBF, effective September 1, 2006, documents the shared services and activities the company provides to WFBF and its members. These include the following:

- Access to the company's telephone system
- Use of computer time and software
- Human resources functions, including assistance in finding qualified job applicants, fringe benefit administration, salary and payroll administration, and switchboard and receptionist services
- Use of the company mailroom
- Farm Bureau membership renewal forms
- Collection of FB dues on installment plans
- Use of meeting rooms in company's home office
- IS programming services
- Board expenses and per diem reimbursements for business-related functions other than regularly scheduled board of director meetings
- Expense of concurrent annual meetings
- Reward program for WFBF members regarding member's property

Fees are based on the service provided or as agreed to. The agreement is effective until terminated by either party.

Sponsorship Agreement

Effective January 1, 2013, the company entered into a sponsorship agreement with WFBF. Under this agreement, Rural is the exclusive property and casualty insurance company sponsor for

certain events, and in turn, WFBF will identify Rural as a sponsor of the event by displaying the company's name and logo in publicity. Rural will remit an agreed-upon amount quarterly to WFBF in order to sponsor certain Rural-sponsored events. The agreement is automatically renewed annually unless written notice of nonrenewal is provided to either party no later than 90 days prior to the automatic renewal date.

Service Board Agreement

Rural has a service board agreement with WFBSB, effective April 30, 1971. The purpose of the agreement is to coordinate the activities of Rural with the other companies related to WFBF and its affiliated companies. Similar agreements exist between WFSB and WFBF and its affiliated companies. The agreement requires Rural to pay WFBSB a reasonable compensation for the services rendered that include the coordination of services and actions among WFBF and its affiliated companies. WFBSB does not have the authority to make the final decisions affecting Rural unless specifically authorized by Rural's board.

In 2012, Rural became a sponsor of the Wisconsin Farm Bureau Federation and Affiliates Pension Plan. The plan covers eligible employees who were hired before January 1, 2009, of the following entities: Rural, WFBF, WFBSB, WFBSC, and WFBFD. Each entity is responsible for its proportionate share of pension expense and makes direct payments to the pension plan.

V. REINSURANCE

The company's reinsurance portfolio and strategy at the time of the examination are described below. A list of the companies that have a significant amount of reinsurance in force at the time of the examination follows. The 2021 agreements were included when available; where the 2021 agreements were still under review, the 2020 agreements were included instead. The contracts contained proper insolvency provisions. Compliance with the Reinsurance Intermediary Act was noted. In addition, Rural assumes reinsurance for crop hail through two pools in order to obtain crop hail coverage from American Agricultural Insurance Company and Nodak Insurance Company.

Nonaffiliated Ceding Contracts

1. Type: Multiple Line Excess of Loss

Reinsurer: Aon. The following subscribing reinsurers were used (the allocation is the same for each layer of reinsurance):

Reinsurers	Allocation
<u>United States</u>	
American Agricultural Insurance Company	5.0%
Employers Mutual Casualty Company	20.0%
Everest Reinsurance Company	30.0%
Partner Reinsurance Company of the U.S.	5.0%
<u>Europe</u>	
Hannover Rueck SE	30.0%
Helvetia Swiss Ins. Co. Ltd.	7.5%
Total Subscribing Reinsurers	97.5%

Scope: All property and casualty business except crop hail and automobile physical damage

Retention: The following retention amounts applied per type of coverage:

Retention	Layers			
	1 st	2 nd	3 rd	4 th
Property	\$500,000	\$2,000,000	\$5,000,000	\$10,000,000
Casualty	500,000	2,000,000	5,000,000	10,000,000

Coverage: The following coverage limitations applied:

Coverage Limits	Layers			
	1 st	2 nd	3 rd	4 th
<u>Property</u>				
Per Risk	\$ 1,500,000	\$3,000,000	\$ 5,000,000	\$ 5,000,000
Per Loss Occurrence	4,500,000	6,000,000	10,000,000	10,000,000
<u>Casualty</u>				
Per Claim	1,500,000	3,000,000	5,000,000	5,000,000
<u>Property & Casualty</u>				
Farm Pollution	15,000,000	0	0	0

- Commissions: Flat rate of 30% on the net earned premium ceded for each layer
- Effective date: January 1, 2021
- Termination: January 1, 2022, or by giving 30 days' prior written notice upon the happening of special circumstances as defined in the contract
2. Type: Multi-Line Aggregate Excess of Loss Ratio
- Reinsurer: American Agricultural Insurance Company
- Scope: Excess liability accrued through insurance and reinsurance in force
- Retention: 69.9% of net earned premium
- Coverage: \$14,000,000 per loss event and \$42,000,000 in aggregate
- Commissions: 12% of annual reinsurance premium for first covered year and 18% of annual reinsurance premium for second and third covered years
- Effective date: January 1, 2020
- Termination: January 1, 2023
3. Type: Property Catastrophe Excess of Loss
- Reinsurer: Aon. The following subscribing reinsurers were used:

Reinsurers	Allocation			
	1 st	2 nd	3 rd	4 th
<u>United States</u>				
Arch Reinsurance Co.	0.0%	10.0%	7.0%	0.0%
AXIS Reinsurance Co.	15.0%	7.5%	15.0%	2.0%
Employers Mutual Casualty Co.	5.0%	5.0%	5.0%	5.0%
Shelter Mutual Ins. Co.	0.0%	5.0%	5.0%	0.0%
<u>Bermuda</u>				
Endurance Specialty Ins. Ltd.	0.0%	10.0%	7.0%	0.0%
Fidelis Ins. Bermuda Ltd.	0.0%	0.0%	0.0%	43.0%
Partner Reinsurance Co. Ltd.	0.0%	10.0%	6.0%	10.0%
<u>Europe</u>				
Hannover Rueck	10.0%	12.0%	10.0%	10.0%
Helvetia Swiss Ins. Co. Ltd.	5.0%	5.0%	5.0%	5.0%
R + V Versicherung AG	30.0%	30.0%	30.0%	30.0%
<u>Asia Pacific</u>				
Korean Reinsurance Co.	0.0%	1.5%	6.0%	5.0%
<u>United Kingdom (Aon Ltd.)</u>				
Hannover Ruck obo Eskatos	0.0%	4.0%	4.0%	0.0%
Total Subscribing Reinsurers	65.0%	100.0%	100.0%	100.0%

Scope: All property and casualty business except crop hail and automobile physical damage

Retention: The following retention amounts applied per type of coverage:

Retention	Layers			
	1 st	2 nd	3 rd	4 th
All Coverage	\$3,000,000	\$12,000,000	\$22,000,000	\$42,000,000

Coverage: The following coverage limitations applied:

Coverage Limits	Layers			
	1 st	2 nd	3 rd	4 th
Per Occurrence	\$ 9,000,000	\$10,000,000	\$20,000,000	\$20,000,000
Term	18,000,000	20,000,000	40,000,000	40,000,000

Commissions: None

Effective date: January 1, 2021

Termination: January 1, 2022, or by giving 30 days' prior written notice upon the happening of special circumstances as defined in the contract

4. Type: Worker's Compensation Excess of Loss

Reinsured: Aon. The following subscribing reinsurers were used:

Reinsurers	Allocation
American Agricultural Insurance Company	5.0%
Brit Insurance Services USA, Inc.	25.0%
Employers Mutual Casualty Company	5.0%
Lloyd's Underwriters	30.0%
Market Global Reinsurance Company	25.0%
Total Subscribing Reinsurers	90.0%

Scope: Worker's compensation and employer's liability

Retention: \$15,000,000 ultimate net loss per loss occurrence

Coverage: \$10,000,000 per loss occurrence
\$20,000,000 all loss occurrences during the term

Commissions: None

Effective date: January 1, 2021

Termination: January 1, 2022

5. Type: Flood Quota Share

Reinsurer: Aon. The following subscribing reinsurers were used:

Reinsurers	Allocation
<u>United States</u>	
Swiss Reinsurance American Corporation	88.9%
<u>Europe</u>	
Hannover Rueck SE	11.1%
Total Subscribing Reinsurers	100.0%

Scope:	Flood damage for homeowners and country estates
Retention:	10% of net liability
Coverage:	\$7,000,000 per loss occurrence
Commissions:	25%
Effective date:	January 1, 2021
Termination:	January 1, 2022, or on any January 1 thereafter by giving 30 days' prior written notice upon the happening of special circumstances as defined in the contract
6. Type:	Pollution Farm Quota Share
Reinsurer:	American Agricultural Insurance Company
Scope:	Agricultural pollution liability coverage
Retention:	10% of net liability
Coverage:	Agricultural Pollution Liability Coverage and Defense Expenses: \$1,000,000 annual aggregate limit First-Party Supplemental Site Pollution Cleanup coverage: \$100,000 per location and annual aggregate limit
Commissions:	27%
Effective date:	January 1, 2020
Termination:	January 1, 2021

Nonaffiliated Assuming Contracts

1. Type:	Crop Hail Aggregate Excess Pool
Reinsured:	American Agricultural Insurance Company
Scope:	Crop Hail Aggregate Excess Reinsurance coverage from Farm Bureau insurance companies.
Coverage:	Rural assumes 3% of the quota share pool and 5% of the first and second layer surplus shares of the proportional crop hail pools
Commissions:	Rural receives a 2% service fee on each pool layer
Effective date:	January 1, 2020
Termination:	January 1, 2021
2. Type:	Domestic Broker Assumed Risk Pool
Reinsured:	American Agricultural Insurance Company

Scope: Property Pro Rata, Property Per Risk and Catastrophe property coverage from America's Columbus, Ohio office

Coverage: Rural assumes 1% of the per risk covered business and 2% of the catastrophic covered business

Commissions: Rural receives a 3.5% service fee

Effective date: January 1, 2021

Termination: January 1, 2022

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, 2019, 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.

Rural Mutual Insurance Company
Assets
As of December 31, 2019

	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	\$431,668,026	\$	\$431,668,026
Stocks:			
Preferred stocks	978,000		978,000
Common stocks	60,128,299	45,091	60,083,208
Cash, cash equivalents, and short-term investments	9,676,741		9,676,741
Receivables for securities	122,000		122,000
Investment income due and accrued	2,132,044		2,132,044
Premiums and considerations:			
Uncollected premiums and agents' balances in course of collection	4,538,112	2,236,819	2,301,293
Deferred premiums, agents' balances, and installments booked but deferred and not yet due	40,715,433	19,800	40,695,633
Reinsurance:			
Amounts recoverable from reinsurers	3,755,563		3,755,563
Net deferred tax asset	2,651,444		2,651,444
Electronic data processing equipment and software	249,867		249,867
Furniture and equipment, including health care delivery assets	63,171	63,171	
Receivable from parent, subsidiaries, and affiliates	709,233	387,436	321,797
Write-ins for other than invested assets:			
Other receivables	952,178	638,084	314,094
Cash Surrender Value – COLI	10,920,344		10,920,344
Overfunded pension asset	1,765,125	1,765,125	
Prepaid expenses	626,171	626,171	
	<u>\$571,651,751</u>	<u>\$5,781,697</u>	<u>\$565,870,054</u>
Total Assets	<u>\$571,651,751</u>	<u>\$5,781,697</u>	<u>\$565,870,054</u>

Rural Mutual Insurance Company
Liabilities, Surplus, and Other Funds
As of December 31, 2019

Losses		\$94,744,187
Loss adjustment expenses		18,759,877
Commissions payable, contingent commissions, and other similar charges		3,183,084
Other expenses (excluding taxes, licenses, and fees)		11,330,706
Taxes, licenses, and fees (excluding federal and foreign income taxes)		979,796
Current federal and foreign income taxes		1,043,765
Unearned premiums		83,850,283
Advance premium		4,083,976
Dividends declared and unpaid:		
Policyholders		3,458,000
Ceded reinsurance premiums payable (net of ceding commissions)		4,066,159
Amounts withheld or retained by company for account of others		229,299
Remittances and items not allocated		112,821
Provision for reinsurance		1,934
Payable to parent, subsidiaries, and affiliates		62,196
Write-ins for liabilities:		
Escheat payable		491,422
Reserve for agents' deferred compensation		<u>8,432,964</u>
 Total Liabilities		 234,830,469
 Unassigned funds (surplus)	 <u>\$331,039,585</u>	
 Surplus as Regards Policyholders		 <u>331,039,585</u>
 Total Liabilities and Surplus		 <u>\$565,870,054</u>

**Rural Mutual Insurance Company
Summary of Operations
For the Year 2019**

Underwriting Income		
Premiums earned		\$182,529,387
Deductions:		
Losses incurred	\$98,612,506	
Loss adjustment expenses incurred	11,034,091	
Other underwriting expenses incurred	<u>44,144,158</u>	
Total underwriting deductions		<u>153,790,755</u>
Net underwriting gain (loss)		28,738,632
Investment Income		
Net investment income earned	12,077,502	
Net realized capital gains (losses)	<u>3,456,450</u>	
Net investment gain (loss)		15,533,952
Other Income		
Net gain (loss) from agents' or premium balances charged off	(121,608)	
Finance and service charges not included in premiums	792,329	
Write-ins for miscellaneous income:		
Gain (loss) on disposal of equipment	(164)	
Increase (decrease) in Cash Surrender Value-COLI	945,747	
Miscellaneous Income	<u>522</u>	
Total other income		<u>1,616,826</u>
Net income (loss) before dividends to policyholders and before federal and foreign income taxes		45,889,410
Dividends to policyholders		<u>5,762,215</u>
Net income (loss) after dividends to policyholders but before federal and foreign income taxes		40,127,195
Federal and foreign income taxes incurred		<u>7,446,384</u>
Net Income (Loss)		<u>\$ 32,680,811</u>

Rural Mutual Insurance Company
Cash Flow
For the Year 2019

Premiums collected net of reinsurance		\$186,026,360
Net investment income		12,766,173
Miscellaneous income		<u>1,616,826</u>
Total		200,409,359
Benefit- and loss-related payments	\$97,289,427	
Commissions, expenses paid, and aggregate write-ins for deductions	55,974,595	
Dividends paid to policyholders	5,491,733	
Federal and foreign income taxes paid (recovered)	<u>7,690,982</u>	
Total deductions		<u>166,446,737</u>
Net cash from operations		33,962,622
Proceeds from investments sold, matured, or repaid:		
Bonds	\$119,563,305	
Stocks	19,092,173	
Other invested assets	61,862	
Net gains (losses) on cash, cash equivalents, and short-term investments	<u>1,515</u>	
Total investment proceeds	138,718,855	
Cost of investments acquired (long- term only):		
Bonds	149,885,920	
Stocks	17,764,789	
Miscellaneous applications	<u>122,000</u>	
Total investments acquired	<u>167,772,709</u>	
Net cash from investments		(29,053,854)
Cash from financing and miscellaneous sources:		
Other cash provided (applied)	(1,195,494)	
Net cash from financing and miscellaneous sources		<u>(1,195,494)</u>
Reconciliation:		
Net Change in Cash, Cash Equivalents, and Short-Term Investments		3,713,274
Cash, cash equivalents, and short-term investments:		
Beginning of year		<u>5,963,467</u>
End of Year		<u>\$9,676,741</u>

**Rural Mutual Insurance Company
Compulsory and Security Surplus Calculation
December 31, 2019**

Assets		\$630,887,925
Less liabilities		<u>256,445,120</u>
Adjusted surplus		374,442,805
Annual premium:		
Individual accident and health	\$ 735,253	
Factor	<u>15%</u>	
Total		\$ 110,287
Lines other than accident and health	181,035,912	
Factor	<u>20%</u>	
Total		<u>36,207,182</u>
Compulsory surplus (subject to a minimum of \$2 million)		<u>36,317,469</u>
Compulsory Surplus Excess (Deficit)		<u>\$338,125,336</u>
Adjusted surplus (from above)		\$374,442,805
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>49,028,583</u>
Security Surplus Excess (Deficit)		<u>\$325,414,222</u>

Rural Mutual Insurance Company
Analysis of Surplus
For the Five-Year Period Ending December 31, 2019

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

	2019	2018	2017	2016	2015
Surplus, beginning of year	\$290,821,782	\$266,463,869	\$241,669,256	\$213,543,845	\$194,016,457
Net income	32,680,811	29,091,802	28,363,822	24,921,710	21,257,133
Change in net unrealized capital gains/losses	6,873,025	(4,580,258)	7,621,585	1,945,458	(743,220)
Change in net deferred income tax	220,753	584,356	(5,440,301)	(235,512)	761,823
Change in nonadmitted assets	888,459	(851,719)	(3,131,432)	(441,464)	(138,841)
Change in provision for reinsurance	(1,934)				
Cumulative effect of changes in accounting principles			(2,313,479)		
Change in treasury stock					
Write-ins for gains and (losses) in surplus:					
Change in liability for pension plans	(14,000)	(11,221)	(89,444)	1,931,748	(1,850,880)
Change in liability for postretirement plans	(429,311)	124,953	(216,138)	3,471	241,373
Surplus, End of Year	<u>\$331,039,585</u>	<u>\$290,821,782</u>	<u>\$266,463,869</u>	<u>\$241,669,256</u>	<u>\$213,543,845</u>

Rural Mutual Insurance Company
Insurance Regulatory Information System
For the Five-Year Period Ending December 31, 2019

The company's NAIC Insurance Regulatory Information System (IRIS) results for the period under examination are summarized below. Unusual IRIS results are denoted with asterisks and discussed below the table.

Ratio	2019	2018	2017	2016	2015
#1 Gross Premium to Surplus	65%	72%	76%	81%	87%
#2 Net Premium to Surplus	56	62	65	71	76
#3 Change in Net Premiums Written	2	4	2	5	6
#4 Surplus Aid to Surplus	0	0	0	0	0
#5 Two-Year Overall Operating Ratio	81	81	80	80	80
#6 Investment Yield	2.5	2.3	2.1*	2.1*	2.2*
#7 Gross Change in Surplus	14	9	10	13	10
#8 Change in Adjusted Surplus	14	9	10	13	10
#9 Liabilities to Liquid Assets	38	44	43	46	49
#10 Agents' Balances to Surplus	1	5	3	4	5

	Ratio	2019	2018	2017	2016	2015
#11	One-Year Reserve Development to Surplus	-2	-2	-3	-1	-1
#12	Two-Year Reserve Development to Surplus	-4	-4	-4	-2	-5
#13	Estimated Current Reserve Deficiency to Surplus	-3	-2	-2	-3	-4

Ratio No. 6 measures the company's investment yield. The exceptional results in 2015, 2016, and 2017 were due to overall low investment returns throughout the market. In 2018, the NAIC lowered the benchmark for unusual investment yield results, resulting in the company no longer producing an unusual investment yield.

Growth of Rural Mutual Insurance Company

Year	Admitted Assets	Liabilities	Surplus as Regards Policyholders	Net Income
2019	\$565,870,054	\$234,830,469	\$331,039,585	\$32,680,811
2018	518,664,804	227,843,022	290,821,782	29,091,802
2017	484,242,817	217,778,948	266,463,869	28,363,822
2016	460,145,129	218,475,873	241,669,256	24,921,710
2015	419,907,082	206,363,237	213,543,845	21,257,133
2014	385,912,130	191,895,673	194,046,457	19,979,310

Year	Gross Premium Written	Net Premium Written	Premium Earned	Loss and LAE Ratio	Expense Ratio	Combined Ratio
2019	\$215,904,275	\$185,063,207	\$182,529,387	60.1%	23.0%	83.1%
2018	209,660,361	180,866,352	178,688,019	59.0	24.6	83.6
2017	203,749,371	174,515,563	172,601,744	59.1	23.3	82.4
2016	196,800,089	171,369,924	168,038,767	57.7	24.0	81.7
2015	185,908,836	162,559,813	158,331,230	59.9	24.4	84.3
2014	174,904,473	152,933,964	148,903,514	59.8	24.5	84.3

Rural's operating results have been strong over the past five years, due to strong underwriting profitability and a reasonable return on investments, which resulted in a 71% increase in surplus from 2014 to 2019. The company continues to focus on disciplined underwriting by maintaining strict underwriting guidelines and adequate rate levels.

Gross premiums written increased from \$175 million in 2014 to \$216 million in 2019 due to increases in the number of policies in force, overall rate increases, and strong business retention.

Reconciliation of Surplus per Examination

No adjustments were made to surplus as a result of the examination. The amount of surplus reported by the company as of December 31, 2019, is accepted.

VII. SUMMARY OF EXAMINATION RESULTS

Compliance with Prior Examination Report Recommendations

There were no specific comments and recommendations in the previous examination report.

Summary of Current Examination Results

There were no adverse or material examination findings as a result of the current examination of the company.

VIII. CONCLUSION

Rural Mutual Insurance Company is a mutual insurer writing personal, farm, and commercial lines of insurance in the state of Wisconsin. The company is under the sponsorship of Wisconsin Farm Bureau Federation Cooperative and owns 100% of Statewide Service, Inc.

During the period under examination, Rural continued to maintain a strong market position and remained the largest farm writer in the state of Wisconsin. From 2014 through 2019, the company's surplus increased by 71%, due to investment income growth and strong underwriting profitability.

Gross and net premiums written increased by 23% and 21%, respectively, from 2014 through 2019, which was primarily attributable to the increase in policies in force, overall rate increases, and new business growth.

IX. SUMMARY OF COMMENTS AND RECOMMENDATIONS

There were no recommendations made as a result of this examination.

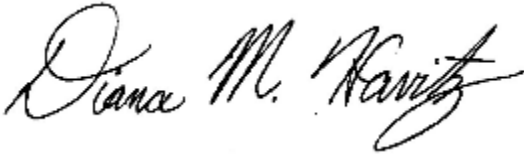
X. ACKNOWLEDGMENT

The courtesy and cooperation extended during the course of the examination by the officers and employees of the company are acknowledged.

In addition to the undersigned, the following representatives of the Office of the Commissioner of Insurance, State of Wisconsin, participated in the examination:

Name	Title
Nicholas Feyen	Insurance Financial Examiner
Eleanor Lu, CISA	IT Specialist
Karl Albert, CFE	Quality Control Specialist
Jerry DeArmond, CFE	Reserve Specialist

Respectfully submitted,



Diana M. Havitz
Examiner-in-Charge

XI. SUBSEQUENT EVENTS

On March 11, 2020, the World Health Organization declared coronavirus disease (COVID-19) a pandemic. As of the date of this report, there is still significant uncertainty on the effect that the pandemic will have on the insurance industry, economy, and society at large. The examination's review of the impact to Rural through February 2021 noted that there has not been a significant impact to Rural overall; however, due to various uncertainties with the pandemic, it is unclear whether this will continue to have a minimal impact to Rural or if it will escalate. The Office of the Commissioner of Insurance will continue to monitor how the pandemic might impact Rural.