



DATE: November 11, 2024
TO: Amy J. Malm
Mark McNabb
FROM: Christopher Martin
SUBJECT: Form A Statement Regarding the Affiliation of Mutual Insurers.

Form A Filing Contact(s)

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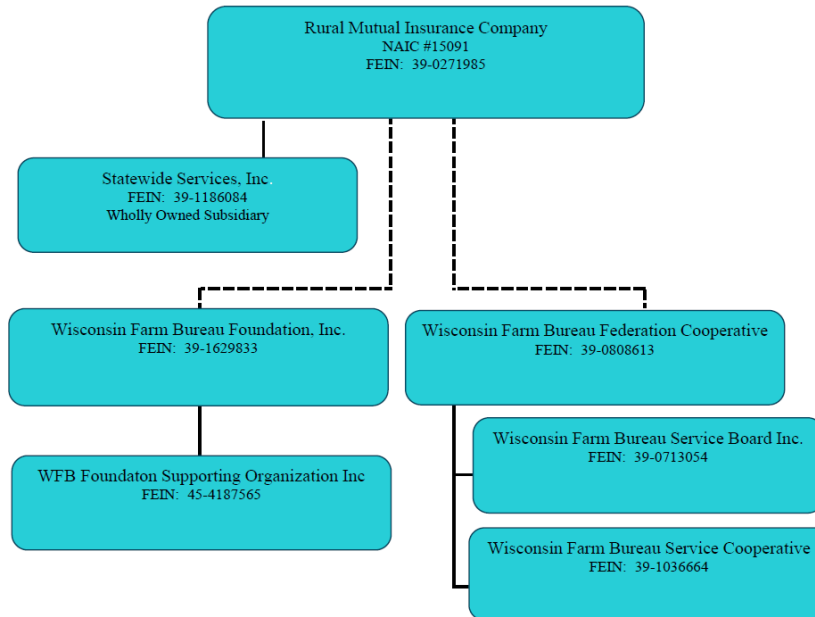
Form A Exhibit(s)

<u>Exhibit:</u>	<u>Description:</u>
Ex. 1	Affiliation Agreement (Redacted)
Ex. 2	Pre-Closing Organization Chart of the Applicant
Ex. 3	Post-Closing Organization Chart of the Applicant
Ex. 4	Directors and Executive Officers of the Applicant
Ex. 5	Proposed Directors and Executive Officers of the Domestic Insurer Post-Closing
Ex. 6	Annual Statements of the Applicant for Five Fiscal Year ended December 31, 2019, through 2023
Ex. 7	Quarterly Financial Statement of the Applicant for Quarter Ended June 30, 2024
Ex. 8	Annual Statements of the Domestic Insurer for Five Fiscal Year ended December 31, 2019, through 2023
Ex. 9	Unredacted Affiliation Agreement (including exhibits)
Ex. 10	Biographical Affidavits for the Directors and Executive Officers of the Applicant
Ex. 11	Biographical Affidavits for the Directors and Executive Officers of the Domestic Insurer as of the Effective Date
Ex. 12	Business Plan
Ex. 13	Three-Year Financial Projections for the Domestic Insurer (including Compulsory and Security Surplus Calculation)
Ex. 14	Competitive Impact Statement

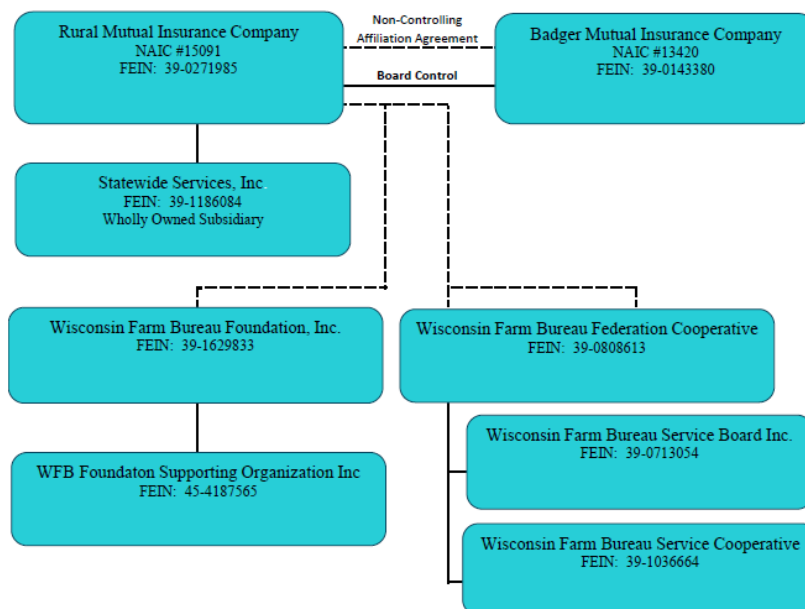
Executive Summary

On September 30, 2024, Rural Mutual Insurance Company (Rural, the “Applicant”) submitted a Form A filing on behalf of Rural and Badger Mutual Insurance Company (Badger, the “Domestic Insurer”). The purpose of the Form A filing related to the proposed acquisition of control of Badger by Rural through an affiliation agreement. The affiliation will occur as described in the affiliation agreement dated September 25, 2024, and the company proposes an effective date of January 1, 2025.

Pre-Closing Organizational Chart of the Applicant(s):



Post-Closing Organizational Chart of the Applicant(s):



Identity and Background of the Domestic Insurers

Identity of the Domestic Insurers:

Rural Mutual Insurance Company

1241 John Q Hammons Drive
Suite 200
Madison, WI 53717

Badger Mutual Insurance Company

1134 N. 9th Street
Suite 150
Milwaukee, WI 53233

Background of the Domestic Insurers:

Rural Mutual Insurance Company

Rural is a Wisconsin domestic mutual insurance company and was incorporated on 06/01/1934. The company is licensed to write Ocean Marine Insurance, Surety Insurance, Workers Compensation Insurance, Aircraft, Automobile, Disability Insurance, Fidelity Insurance, Fire, Inland Marine and Other Property Insurance, Liability and Incidental Medical Expense Insurance (other than automobile), and Miscellaneous.

Badger Mutual Insurance Company

Badger is a Wisconsin domestic mutual insurance company and was incorporated on 01/01/1887. The company is licensed to write Ocean Marine Insurance, Surety Insurance, Workers Compensation Insurance, Aircraft, Automobile, Disability Insurance, Fidelity Insurance, Fire, Inland Marine and Other Property Insurance, Liability and Incidental Medical Expense Insurance (other than automobile), and Miscellaneous.

Executive Officers and Directors of Rural:

<u>Name</u>	<u>Title</u>	<u>Director Term</u>
Joe H. Bragger*	Director	2026
Dave E. Daniels*	Director, First Vice President	2024
Brad Olson*	Director	2025
Kim L. Bremmer*	Director	2025
Kevin D. Krentz*	Director, President	2024
Daniel R. Meyer*	Director	2026
Archie A. Morton, Jr.*	Director	2026
Robert D. Nigh*	Director	2024
Brian D. Preder*	Director	2025
Louis K. Korth*	Vice President – Chief Actuary & Treasurer	
Bradley J. Uken*	Secretary	
Daniel J. Merk*	Executive Vice President and Chief Executive Officer	
John A. Church*	Vice President – Information Systems	
Ariella Schrieber*	Vice President – Claims and General Counsel	
Sara Leach*	Vice President – Underwriting	
Jason C. Feist*	Vice President – Customer Acquisition & Service	
Mark Schuster*	Vice President – Organizational Development	

Proposed Executive Officers and Directors of Badger:

<u>Name</u>	<u>Title</u>	<u>Appointed by/Director term</u>
Daniel J. Merk*	Director, President	Rural/Two years
Kevin D. Krentz *	Director	Rural/Two years
Dave E. Daniels*	Director	Rural/Two years
Gail M. Luedke*	Director	Rural/Two years
Peter Pelizza*	Director	Rural/Two years
Michael Ruder*	Director	Rural/Two years
Daniel Nigro*	Director, Chief Executive Officer	Badger/One year
Santino Rosario Cicero*	Director	Badger/One year
Steve Albinger*	Director	Badger/One year
Louis K. Korth*	Treasurer	
Bradley Uken*	Secretary	
Darrin Allen Gorendahl*	CFO & VP – Accounting	
Kathy Ann Bubeck*	VP – Claims	
Brian Edward Wiza*	VP – Underwriting	
Andrew John Theide*	VP – Information Technology	
Dan Wolfgram*	COO	
TBD	Director	Rural/Two years
TBD	Director	Rural/Two years
TBD	Chairperson	
TBD	Vice President	

Note: * following an individual's name indicates that the biographical affidavit was provided for the individual and there are no outstanding significant concerns after OCI review.

Directors appointed by Badger will serve one year terms. Directors appointed by Rural will serve two year terms. Additional information on the structure of the Badger board can be found in the Proposed Directors and Executive Officers of the Domestic Insurer Post-Closing document.

Nature, Source, and Consideration

As stated in the Form A filing, Badger and Rural intend to enter into an affiliation agreement. Due to the nature of the transaction, no funds have or will be used in effecting the transaction, no consideration will be transferred, and no funds will be borrowed from any source. According to the Applicant, all negotiations were conducted at arm's length.

No voting securities will be acquired as part of the transaction, as both companies are mutual insurers and the transaction is an affiliation. There has not been any recent purchase of any voting securities by Rural in the past 12 months. No agreements have been made with any broker-dealer regarding voting securities.

Rural will acquire control of Badger by having the right to nominate a majority of Badger's board of directors as set forth in the affiliation agreement.

Applicants Future Plans

As stated in the Form A filing, the Applicant has no plans to declare an extraordinary dividend, liquidate the Domestic Insurer, sell the Domestic Insurer's asset, or merge it with any person or to make any other material changes in the Domestic Insurers business operations, corporate structure, or management.

The plan of affiliation will be similar to the other affiliations of mutual insurers currently in Wisconsin. Rural and Badger will affiliate in accordance with the affiliation agreement, signed by both companies.

As part of the affiliation agreement, Badger will enter into a quota share reinsurance agreement and management agreement with Rural.

The composition of the board of directors of Badger after the effective date will include eight directors appointed by Rural and three directors from Badger.

Financial Highlights

Highlighted Financial Data of Rural:

Audited Financial Statements

Financial Highlights	2023	2022	2021	2020	2019
Total Assets	759,599,690	705,318,725	689,449,187	630,862,925	565,870,054
Total Liabilities	303,316,851	280,273,293	273,143,009	256,960,120	234,830,469
Total Equity	456,282,839	425,045,432	416,306,178	373,902,805	331,039,585
Net Premiums Earned	243,809,946	220,553,543	202,416,227	191,394,030	182,529,387
Net Underwriting Income (Loss)	17,612,887	18,303,792	29,842,963	40,246,810	28,738,632
Net Income	29,296,469	21,963,796	37,787,788	38,717,273	32,860,811
Net Cash from Operations	33,030,903	11,976,617	45,263,527	51,271,943	33,962,622

Highlighted Financial Data of Badger:

Audited Financial Statements

Financial Highlights	2023	2022	2021	2020	2019
Total Assets	182,143,014	213,932,647	224,002,297	209,247,628	194,178,467
Total Liabilities	146,767,902	153,590,791	137,072,377	130,105,771	120,673,556
Total Equity	35,375,112	60,341,856	86,929,920	79,141,857	73,504,911
Net Premiums Earned	131,031,221	117,232,937	106,951,403	102,276,689	97,057,844
Net Underwriting Income	(25,970,829)	(34,923,632)	(393,811)	2,462,631	(1,603,748)
Net Income	(20,003,780)	(29,945,365)	4,005,612	7,981,213	3,340,859
Net Cash from Operations	(23,231,105)	(14,118,593)	8,728,301	11,314,504	7,016,630

Financial Projections of Rural:

The financial projections of the Domestic Insurer(s) are confidential. OCI reviews these projections as part of the Form A review process.

Financial Projections of Badger:

The financial projections of the Domestic Insurer(s) are confidential. OCI reviews these projections as part of the Form A review process.

611.72 (3) Standard

Wisconsin Statute s. 611.72(3)(am) creates a five-part test for the Commissioner to use when evaluating the merger or acquisition of a domestic stock insurance company. It reads, in relevant part:

(am) The commissioner shall approve the plan if the commissioner finds...that it would not violate the law or be contrary to the interests of the insureds of any participating domestic corporation or of the Wisconsin insureds of any participating nondomestic corporation and that:

1. After the change of control, the domestic stock insurance corporation or any domestic stock insurance corporation controlled by the insurance holding corporation

would be able to satisfy the requirements for the issuance of a license to write the line or lines of insurance for which it is presently licensed;

2. The effect of the merger or other acquisition of control would not be to create a monopoly or substantially to lessen competition in insurance in this state;

3. The financial condition of any acquiring party is not likely to jeopardize the financial stability of the domestic stock insurance corporation or its parent insurance holding corporation, or prejudice the interests of its Wisconsin policyholders;

4. The plans or proposals which the acquiring party has to liquidate the domestic stock insurance corporation or its parent insurance holding corporation, sell its assets, merge it with any person or make any other material change in its business or corporate structure or management, are fair and reasonable to policyholders of the domestic stock insurance corporation or in the public interest; and

5. The competence and integrity of those persons who would control the operation of the domestic stock insurance corporation or its parent insurance holding corporation are such that it would be in the interest of the policyholders of the corporation and of the public to permit the merger or acquisition of control.

These five requirements are analyzed below.

s. 611.72(3)(am)1: After reviewing the documents provided by the Applicant in their Form A filing, OCI Staff believes that the Applicant is able to satisfy s. 611.72(3)(am)1. In reaching this decision, OCI staff has relied heavily on the proposed business plan and financial projections.

s. 611.72(3)(am)2: OCI's determined that a Form E analysis was not necessary. OCI's examination of the potential competitive effects concluded that approving the acquisition would not violate the competitive standards set forth in s. Ins 40.025(4), Wis. Adm. Code.

s. 611.72(3)(am)3: Paragraph three requires that the financial condition of any acquiring party is not likely to jeopardize the financial stability of the domestic insurer or or prejudice the interest of its Wisconsin policyholders. After reviewing the documents provided by the Applicants, the concern that affiliated non-insurance operations would jeopardize the financial condition is deemed minimal. OCI, however, will monitor compliance with s. 611.72(3)(am)3, Wis. Stat., going forward.

s. 611.72(3)(am)4: Paragraph four requires that the post-transaction plans to change the business structure be "fair and reasonable to policyholders of the domestic stock insurance corporation or in the public interest." Review of the filing by OCI staff do not indicate any significant changes to the operation of the Domestic Insurer. Compliance with s. 611.72(3)(am)4, Wis. Stat., is expected.

s. 611.72(3)(am)5: The review of the Form A filing did not raise any concerns regarding the integrity of the Officers and Directors.

Recommendation

After OCI's review of the Form A filing, it is determined that the transaction will not violate the law or be contrary to the interests of the insureds, and it does not meet any of the disqualifying criteria outlined in s. 611.72 (3), Wis. Adm. Code. Therefore, the transaction should be approved.