Report

of the

Examination of

Forward Mutual Insurance Company

Ixonia, Wisconsin

As of December 31, 2010

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State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

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May 20, 2011

Honorable Theodore K. Nickel
Commissioner of Insurance
State of Wisconsin
125 South Webster Street
Madison, Wisconsin 53703

Commissioner:

In accordance with your instructions, an examination has been performed as of December 31, 2010, of the affairs and financial condition of:

FORWARD MUTUAL INSURANCE COMPANY
Ixonia, Wisconsin

and the following report thereon is respectfully submitted:

I. INTRODUCTION

The previous examination of Forward Mutual Insurance Company (Forward Mutual or the company) was made in 2005 as of December 31, 2004. The current examination covered the intervening time period ending December 31, 2010, and included a review of such subsequent transactions deemed essential to complete this examination.

The "Summary of Examination Results" contains elaboration on all areas of the company's operations. Special attention was given to the action taken by the company to satisfy the recommendations and comments made in the previous examination report.

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

Ixonia Mutual Insurance Company (Ixonia) was originally 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 was the Ixonia Mutual Fire Insurance Company, which was later changed to Ixonia Mutual Insurance Company. Watertown Mutual Insurance Company (Watertown) was organized as a town mutual insurance company on November 13, 1872. The original name of the company was the Town of Watertown Mutual Insurance Company. This name was later changed to Watertown 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 merger was executed in accordance with an Agreement and Plan of Merger. The surviving corporation is Ixonia, which, at the effective date of the merger, changed its name to Forward Mutual Insurance Company. On the effective date of the merger the policyholders of Watertown became policyholders of Ixonia, and Ixonia became responsible for all liabilities and obligations of Watertown.

During the period under examination, there were several amendments to the articles of incorporation and to the bylaws. In 2007 the company amended its articles and bylaws to change the titles of certain officers of the board of directors and also to establish a new position of President and Chief Executive Officer to distinguish between a board of director officer and management of the corporation. The officers were changed from President to Chairperson of the board of directors and Vice President to Vice Chairperson. The officer holding the position of President and Chief Executive Officer is not required to be a member of the board of directors. The composition of the Executive Committee was changed to include the President and Chief Executive Officer. The company also changed its articles of organization and bylaws in December of 2009 to reflect the merger with Watertown Mutual Insurance Company. Among the most significant changes were changing the name of the company to Forward Mutual Insurance Company, changing the number of directors from 7 to not less than 7 nor more than 12 members, implementing requirements that no directors be agents for the company and that the President and Chief Financial Officer not be a member of the board of directors, and changing the composition of the Executive Committee of the Board by adding the Vice Chairperson and deleting the Treasurer from the members of the Committee.

The company is currently licensed to write property, including windstorm and hail, and nonproperty insurance. The company is currently licensed to write business in the following counties:

Columbia	Dane
Dodge	Fond du Lac
Green	Iowa
Jefferson	Lafayette
Milwaukee	Ozaukee
Rock	Sauk
Sheboygan	Walworth
Washington	Waukesha

A review was made of the policy and application forms currently used by the company. The company issues approved policies with or without endorsements for terms of one year with premiums payable on the advance premium basis. The company also charges $10 for each installment premium payment and a $6 annual service fee for the electronic fund transfer payment option.

Business of the company is acquired through 70 agents, none of whom are directors of the company. Agents are presently compensated for their services as follows:

Type of Policy	**Compensation**
Equipment breakdown	8%
All other lines	13

Agents do not have authority to adjust losses. All losses are reviewed by the adjustment committee during the board meetings. Property and liability claims are adjusted by an outside adjuster (liability claims are 100% reinsured by Grinnell Mutual Reinsurance Company).

Policyholders may participate in the management and control of the company by attending and voting at all annual or special meetings of the members. No member may vote by proxy. The annual meeting of the company for the election of directors and special meetings of the company are held in accordance with its articles of incorporation.

Board of Directors

The board of directors consists of 12 members divided into three classes. One class is elected at each annual meeting for a term of three years. Vacancies on the board may be filled by the directors for the interim to the next annual meeting when a director shall be chosen for the unexpired term.

The current board of directors consists of the following policyholders of the company:

Name	Principal Occupation	Residence	Expiry
David W. Blank	Dairy Farmer	Ixonia, Wisconsin	2013
Donald A. Bohn *	Farmer	Watertown, Wisconsin	2013
Charles P. Crave *	Dairy Farmer	Waterloo, Wisconsin	2012
Roger L. Degner	Cash Crop Farmer	Ixonia, Wisconsin	2014
David P. Flood *	Dairy Farmer	Oconomowoc, Wisconsin	2014
Mark D. Mallow	Vice President, ISB Community Bank	Watertown, Wisconsin	2012
Donald P. Reese	Carpenter	Watertown, Wisconsin	2014
Robert D. Salov *	Regional Sales Manager, Shadow Fax	Cambridge, Wisconsin	2012
Randall L. Wegner	Dairy Farmer	Sullivan, Wisconsin	2013
Dale R. Wolf *	Retired	Whitewater, Wisconsin	2013
Dale H. Zastrow	Farmer	Watertown, Wisconsin	2012
Stephen M. Zillmer*	Retired	Watertown, Wisconsin	2014

Directors drawn from the membership of Watertown Mutual Insurance Company are identified with an asterisk.

Members of the board currently receive $100.00 for each meeting attended and are reimbursed for mileage at the current U.S. Internal Revenue Service rate.

Section 612.13 (1m), Wis. Stat., requires:

(1) If a town mutual has fewer than nine directors, no more than one director may be an employee or representative of the town mutual; and

(2) Employees and representatives of a town mutual may not constitute a majority of its board.

The company is in compliance with these requirements. None of the company's directors was considered to be an employee or representative of the company. The company's bylaws specifically state that no director can serve as agent of the company.

Officers

Officers are elected by the board of directors from among its members and hold office for one year or until their successors are duly elected and qualified. Officers serving at the present time are as follows:

Name	Office	2010 Compensation
Howard C. Wiedenhoeft	President and Chief Executive Officer	$51,810*
Charles P. Crave	Chairman of the Board	2,420
Stephen M. Zillmer	Vice Chairman of the Board	2,900
Donald P. Reese	Secretary	2,500
Donald A. Bohn	Treasurer	2,100

* The President and CEO compensation includes his share of the commissions earned by him as a co-owner of Ixonia Insurance Agency, an independent insurance agency.

Reported compensation is the total compensation paid by the insurer for the year and includes salary, commissions, director fees and rental income as applicable.

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:

Adjusting Committee
All directors

Investment Committee
All directors

Internal Operations Committee
David W. Blank
Donald P. Reese
Dale R. Wolf
Stephen M. Zillmer

Underwriting Committee
Donald A. Bohn
David P. Flood
Mark D. Mallow
Randall L. Wegner

Growth of Company

The growth of the company since the previous examination as compiled from its filed annual statements was as follows: (As discussed earlier, Watertown merged into Ixonia as of January 1, 2010. Forward Mutual's financial statements and other key information are combined with Watertown's for all years prior to the merger.)

Year	Net Premiums Earned	Policies In Force	Net Income	Admitted Assets	Policyholders' Surplus
2010	$1,355,498	$2,394	$187,766	$6,440,182	$5,177,301
2009	1,268,012	2,789	5,455	6,136,512	4,890,535
2008	1,354,342	2,736	8,622	6,019,455	4,748,973
2007	1,423,214	2,851	311,823	6,160,794	4,861,972
2006	1,478,231	2,961	121,618	5,787,401	4,544,519
2005	1,427,752	3,191	242,158	5,613,437	4,337,888
2004	1,378,530	3,446	121,978	5,139,883	3,976,530

The ratios of gross and net premiums written to surplus as regards policyholders since the previous examination were as follows:

Year	Gross Premiums Written	Net Premiums Written	Policyholders' Surplus	Writings Ratios	
				Net	Gross
2010	$1,914,843	$1,242,828	$5,177,301	24%	37%
2009	2,011,004	1,267,138	4,890,535	26	41
2008	2,004,894	1,343,263	4,748,973	28	42
2007	2,032,995	1,392,783	4,861,972	29	42
2006	2,097,054	1,466,767	4,544,519	32	46
2005	2,171,398	1,448,775	4,337,888	33	50
2004	2,142,444	1,425,365	3,976,530	36	54

For the same period, the company's operating ratios were as follows:

Year	Net Losses and LAE Incurred	Other Underwriting Expenses Incurred	Net Premiums Earned	Loss Ratio	Expense Ratio	Com-posite Ratio
2010	$664,625	$615,052	$1,355,498	49%	49%	99%
2009	490,953	797,470	1,268,012	39	63	102
2008	717,424	724,657	1,354,342	53	54	107
2007	684,635	653,844	1,423,214	48	47	95
2006	922,812	584,200	1,478,231	62	40	102
2005	708,971	592,967	1,427,752	50	41	91
2004	874,538	526,099	1,378,530	63	37	100

The company's underwriting results are susceptible to frequent and often large weather-related losses due to its geographical concentration. The combined ratio has been over

100% in three of the six years under examination. The company has a relatively conservative investment portfolio which has been the source of reliable investment income in the last six years. As a result, the company's underwriting performance combined with investment income has resulted in a net income in every year during the period under examination. The number of policies in force has decreased by 31%. This decline is caused by a number of factors including the downturn in general economy which affected homeowners business, the softening of the insurance market, and a decline in family farming. The merger of the two companies resulted in a decline of policy count due to the decision to non-renew all of the commercial policies that were offered by Watertown and also due to combining some of the large farm policies with multiple locations into one policy. The company also attributes the decline to adherence to strict underwriting guidelines in its business practices which can cause a loss of business in the short run although it is expected to produce more favorable long-term operating results. Surplus has increased 30% since 2004.

II. REINSURANCE

The examiners' review of the company's reinsurance portfolio revealed there is currently one ceding treaty. The treaty contains a proper insolvency clause and complies with s. Ins 13.09 (3), Wis. Adm. Code, concerning maximum wind loss. Company retentions of risk complied with s. Ins 13.06, Wis. Adm. Code.

Reinsurer:	Grinnell Mutual Reinsurance Company
Effective date:	January 1, 2011
Termination provisions:	As of any December 31 by either party giving 90 days' prior written notice

The coverages provided under this treaty are summarized as follows:

1.	Type of coverage:	First Occurrence of Loss Excess
	Lines reinsured:	All property lines written by the company
	Company's retention:	$100,000 per loss occurrence
	Coverage:	$200,000 above retention
	Reinsurance premium:	$0.0108 monthly rate ($0.1297 annually) per $1,000 of adjusted gross fire risk in force
	Ceding commission:	None
2.	Type of coverage:	Individual Occurrence of Loss Excess
	Lines reinsured:	All property lines written by the company
	Company's retention:	$300,000
	Coverage:	100% above retention, subject to specified limits by type of facilities
	Reinsurance premium:	$0.0041 monthly rate ($0.0493 annually) per $1,000 of adjusted gross fire risk in force
	Ceding commission:	None
		The company may purchase facultative reinsurance for exposures that exceed the limitations specified under the Individual Occurrence of Loss Excess Coverage
3.	Type of coverage:	Aggregate Excess of Loss
	Lines reinsured:	All property lines written by the company

	Company's retention:	The retention is based on the ten-year average fire loss ratio plus a load mutually agreed upon. The current retention is $1,347,327.
	Coverage:	100% of unlimited losses above retention
	Reinsurance premium:	$0.0215 monthly rate ($0.2576 annually) per $1,000 of adjusted gross fire risk in force
	Ceding commission:	None
4.	Type of coverage:	Equipment Breakdown Coverage
	Lines reinsured:	Equipment breakdown policies issued by the company
	Company's retention:	$0
	Coverage:	100% of all losses on all equipment breakdown coverage
	Reinsurance premium:	100% of the equipment breakdown premiums
	Ceding commission:	20% of ceded premium
5.	Type of coverage:	Comprehensive Personal Liability Reinsurance
	Lines reinsured:	All liability lines written by the company
	Company's retention:	$0
	Coverage:	100% of the liability
	Reinsurance premium:	100% of the direct premium charged
	Ceding commission:	20% of ceded premium
	Contingent commission:	5% to 30% of net profits based on net premium written volume

III. FINANCIAL DATA

The following financial statements reflect the financial condition of the company as reported to the Commissioner of Insurance in the December 31, 2010, annual statement. Adjustments made as a result of the examination are noted at the end of this section in the area captioned "Reconciliation of Policyholders' Surplus."

Forward Mutual Insurance Company
Statement of Assets and Liabilities
As of December 31, 2010

Assets	Ledger	Not Admitted	Net Admitted
Cash	$1,124,706	$	$1,124,706
Bonds	3,735,009		3,735,009
Preferred stocks	15,000		15,000
Common stocks	1,121,555		1,121,555
Real estate	148,752		148,752
Premiums, agents' balances and installments:			
In course of collection	3,809		3,809
Deferred and not yet due	233,038		233,038
Investment income accrued	48,066		48,066
Electronic data processing equipment	6,896		6,896
Furniture and fixtures	4,351	$4,351	
Net deferred tax asset	31,300	31,300	
Aggregate write-ins for other than invested assets:			
Fire dues recoverable	3,351	0	3,351
Totals	$6,475,833	$35,651	$6,440,182

Liabilities and Surplus

Net unpaid losses	$ 185,170
Unpaid loss adjustment expenses	25,000
Commissions payable	71,518
Other expenses (excluding taxes, licenses and fees)	18,000
Federal income taxes payable	67,813
Unearned premiums	798,151
Reinsurance payable	52,671
Advance premium	44,558
Total Liabilities	1,262,881
Policyholders' surplus	5,177,301
Total Liabilities and Surplus	$6,440,182

Forward Mutual Insurance Company
Statement of Operations
For the Year 2010

Net premiums and assessments earned		$1,355,498
Deduct:		
Net losses incurred	$518,257	
Net loss adjustment expenses incurred	146,368	
Net other underwriting expenses incurred	615,052	
Total losses and expenses incurred		1,279,677
Net underwriting gain (loss)		75,821
Net investment income:		
Net investment income earned	123,212	
Net realized capital gains (losses)	41,121	
Total investment gain (loss)		164,333
Other income (expense):		
Miscellaneous income	18,712	
Total other income		18,712
Net income (loss) before federal income taxes		258,866
Federal income taxes incurred		71,100
Net Income (Loss)		$ 187,766

Forward Mutual Insurance Company
Reconciliation and Analysis of Surplus as Regards Policyholders
For the Six-Year Period Ending December 31, 2010

The following schedule is a reconciliation of surplus as regards policyholders during the period under examination as reported by the company in its filed annual statements:

	2010	**2009**	**2008**	**2007**	**2006**	**2005**
Surplus, beginning of year	$4,890,535	$4,748,973	$4,861,972	$4,544,519	$4,337,888	$3,976,530
Net income	187,766	5,455	8,622	311,823	121,618	242,158
Net unrealized capital gain or (loss)	64,064	83,068	(96,573)	40,537	84,	112,276
Change in non-admitted assets	(19,064)	53,039	(25,048)	(36,307)	6,987	6,924
Change in net deferred income tax:	54,000			1,400	(6,500)	
Surplus, End of Year	$5,177,301	$4,890,535	$4,748,973	$4,861,972	$4,544,519	$4,337,888

Reconciliation of Policyholders' Surplus

The examination resulted in no adjustments to policyholders' surplus. The amount reported by the company as of December 31, 2010, is accepted.

IV. SUMMARY OF EXAMINATION RESULTS

Compliance with Prior Examination Report Recommendations

The last examination report did not contain any comments or recommendations.

Current Examination Results

Corporate Records

The minutes of the annual meetings of policyholders and meetings of the board of directors and committees thereof were reviewed for the period under examination and also for the subsequent period.

Biographical data relating to company officers and directors have been reported in accordance with the provisions of s. Ins 6.52, Wis. Adm. Code.

The company has executed formal written agreements with its agents. The contracts include language indicating the agent will represent the company's interests "in good faith."

Conflict of Interest

In accordance with a directive of the Commissioner of Insurance, each company is required to establish a procedure for the disclosure to its board of directors of any material interest or affiliation on the part of its officers, directors, or key employees which conflicts or is likely to conflict with the official duties of such person. A part of this procedure is the annual completion of a conflict of interest questionnaire by the appropriate persons. The company has adopted such a procedure for disclosing potential conflicts of interest. Conflict of interest questionnaires were reviewed for the period under examination with no apparent conflicts being noted.

Fidelity Bond and Other Insurance

The company is afforded coverage under the terms of the following bonds or contracts and has complied with s. Ins 13.05 (6), Wis. Adm. Code, which sets forth the minimum requirements for fidelity bond coverage:

Type of Coverage	Coverage Limits
Fidelity bond	$ 300,000
Worker's compensation:	
Employee injury	Statutory
Employee liability:	
Each accident	100,000
Each employee	100,000
Policy limit	500,000
Combined insurance company professional liability and directors and officers liability:	
Each claim	4,000,000
Policy limit	4,000,000
Business owners:	
Property coverage:	
Building	315,395
Personal property	100,000
Liability coverage:	
Each occurrence	1,000,000
Policy limit	2,000,000
Medical expense, each person	5,000
Product – completed operations	2,000,000

The company also purchased an extended reporting period policy for the period from May 28, 2010, to May 28, 2013, to extend coverage for loss or claim expense arising from claims for bad faith or wrongful acts of the directors of Watertown Mutual Insurance Company. As of the examination date, no such claims have been reported.

Underwriting

The company has a written underwriting guide. The guide covers all the lines of business that the company is presently writing. The company has a formal inspection procedure for both new and renewal business. A sampling of new applications and renewal business is inspected by committee members who are independent of the risk under consideration and review.

Claims Adjusting

The company has an adjusting committee consisting of at least three directors as required by s. 612.13 (4), Wis. Stat. The adjusting committee consists of all members of the board of directors. The function of this committee is to adjust or supervise the adjustment of losses.

Accounts and Records

The examiners' review of the company's records indicated that the company is in compliance with s. Ins 13.05, Wis. Adm. Code, which sets forth the minimum standards for the handling of cash and recording of cash transactions by town mutual insurance companies. The examiners noted the following:

1. A proper policy register is maintained.
2. A proper cash receipts journal is maintained.
3. A proper cash disbursements journal is maintained.
4. A proper general journal is maintained.
5. A proper general ledger is maintained.

An extensive review was made of income and disbursement items. Cash receipts were traced from source records and the proper recording and eventual deposit thereof ascertained. Negotiated checks issued during the period under examination were reviewed, test checked for proper endorsement, and traced to cash records. The verification of assets and determination of liabilities were made as of December 31, 2010.

The company is audited annually by an outside public accounting firm.

EDP Environment

Company personnel were interviewed with respect to the company's electronic data processing environment. Access to the computers is limited to people authorized to use the computers. Company personnel back up the computers daily. The personal media drives where the backed-up data is stored are rotated at least twice per week and the data is kept off-site.

The company has manuals documenting the use of its software and outlining the steps to complete specific tasks. The manuals assist in the continuity of operations by providing instructions for seldom-used applications or when staff turnover occurs. The examination determined that the level of documentation contained in the manuals was reasonable.

Business Continuity Plan

A business continuity plan identifies steps to be performed by a company in the event of business interruptions including, but not limited to, the inability to access its computer, the loss of information on its computer, the loss of a key employee, or the destruction of its office building.

The company has developed a business continuity plan. The company's business continuity plan appears to be adequate.

Invested Assets

Section 610.23, Wis. Stat., requires insurers to hold all investments and deposits of its funds in its own name except that:

(1) Securities kept under a custodial agreement or trust arrangement with a bank or banking and trust company may be issued in the name of a nominee of the bank or banking and trust company; and

(2) Any insurer may acquire and hold securities in bearer form.

For securities not held under a custodial agreement or trust arrangement with a bank or banking and trust company, s. Ins 13.05 (4), Wis. Adm. Code, requires that:

> Non-negotiable evidences of company investments such as registered bonds, certificates of deposits, notes, etc., shall be maintained in a safe or vault with adequate safety controls or in a safety deposit box in a bank. Negotiable evidences of company investments shall be maintained in a safety deposit box in a bank. Access to a company safety deposit box containing negotiable securities shall require the presence and signature of at least 2 officers, directors or employees of the company.

The company is in compliance with these requirements.

Investment Rule Compliance

The investment rule for town mutual insurers allows a company to invest in common stocks, common stock mutual funds, and other higher risk investments (referred to as "Type 2") provided that the town mutual has a sufficient amount of lower risk investments (referred to as "Type 1"). A town mutual may invest in Type 2 securities only if it already has sufficient Type 1 investments. Type 1 investments must equal or exceed the greater of items 1, 2, or 3.

1.	Liabilities plus $300,000	$1,562,881
2.	Liabilities plus 33% of gross premiums written	1,894,779
3.	Liabilities plus 50% of net premiums written	1,884,295
4.	Amount required (greater of 1, 2, or 3)	1,894,779
5.	Amount of Type 1 investments as of 12/31/2010	4,673,922
6.	Excess or (deficiency)	$2,779,143

The company has sufficient Type 1 investments.

ASSETS

Cash and Invested Cash **$1,124,706**

The above asset is comprised of the following types of cash items:

Cash in company's office	$ 100
Cash deposited in banks—checking accounts	2,846
Cash deposited in banks at interest	1,121,760
Total	$1,124,706

Cash in company's office at year-end represents the company's petty cash fund. A physical count was made by the examiners during the course of the examination and the balance reconciled to year-end.

Cash deposited in banks subject to the company's check and withdrawal consists of one account maintained in a bank. Verification of checking account balances was made by obtaining confirmations directly from the depository and reconciling the amounts shown thereon to company records.

Cash deposited in banks are held in money market accounts, money market mutual funds, and certificates of deposit (CD). There are a total of 11 deposits. Cash in money market accounts is held in three different depositories. Money market funds and all but one certificates of deposit are held in a custodial account. One certificate of deposit is held in the company’s office. Deposits were verified by direct correspondence with the respective depositories and by an actual count and inspection of certificates. The examiners found that the company reports all its money market instruments including bank money market accounts and money market mutual funds on Schedule E – Part 1 (Cash) which reports all cash on deposit in one aggregate lump sum. According to Statement of Statutory Accounting Principle (SSAP) No. 2, entitled "Cash, Drafts, and Short-term Investments,” all investments with remaining maturities of one year or less at the time of acquisition, excluding investments classified as cash equivalent, should be considered short–term investments and be reported in accordance with the guidance in the NAIC Purposes and Procedures Manual of the Securities Valuation Office. Money market accounts have characteristics of cash, and, consequently, should be reported on Schedule E – Part 1. Money market mutual funds, on the other hand, have characteristics of short-term investments, and should be reported on either Schedule DA – Part 1 (Short-Term Investments) of Schedule D – Part 2 – Section 2 (Common Stocks). Currently, all the company's money market mutual funds are qualified to be reported on Schedule DA – Part 1. It is recommended that the company report all money market mutual funds in accordance with SSAP No. 2 in future statutory financial statements.

Furthermore, it was discovered that the company reports all its certificates of deposit on Schedule E – Part 1. Review of the 2010 CD Schedule revealed that all certificates of deposit held by the company as of December 31, 2010, had maturity dates in excess of one year from acquisition. According to SSAP No. 26, entitled "Bonds, excluding Loan-backed and Structured Securities," certificates of deposit with maturity dates exceeding one year from acquisition date have characteristics of bonds and should be reported in Schedule D – Part 1 (Long-Term Bonds). 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.

Interest received during the year 2010 totaled $26,240 and was verified to company cash records. Rates of interest earned on cash deposits ranged from 2.5% to 4.9%. Accrued interest on cash deposits totaled $4,365 at year-end.

Book Value of Bonds **$3,735,009**

The above asset consists of the aggregate book value of bonds held by the company as of December 31, 2010. Bonds owned by the company are held in a custodial account.

Bond purchases and sales for the period under examination were checked to brokers' invoices and advices. The company's investment in bonds was in conformance with Wisconsin Statutes and the rules of the Commissioner of Insurance as regards investments made by town mutual insurers. Testing of a sample of bonds purchased in 2010 revealed that the purchase date reported on Schedule D – Part 1 is the settlement date, not the trade date. According to SSAP No. 26, entitled "Bonds, excluding Loan-backed and Structured Securities," a bond acquisition or disposal should be recorded on the trade date, not the settlement date, except for the acquisition of private placement bonds, which should be reported on the funding date. Use of the trade date is consistent with the principles of accrual accounting because the potential risks and benefits of the purchase become effective on that date. It is recommended that the company report bond purchases on Schedule D – Part 1 on the trade date in accordance with SSAP No. 26.

Interest received during 2010 on bonds amounted to $144,703 and was traced to cash receipts records. Accrued interest of $43,701 at December 31, 2010, was checked and allowed as an asset.

Preferred Stocks Investments **$15,000**

The above asset consists of the preferred stock of Wisconsin Reinsurance Corporation held by the company as of December 31, 2010. Stocks owned by the company are located in the home office.

Stock certificates were physically examined by the examiners. Dividends received during 2010 on preferred stocks amounted to $900.

Common Stocks and Mutual Fund Investments **$1,121,555**

The above asset consists of the aggregate market value of stocks and mutual funds held by the company as of December 31, 2010. Stocks owned by the company are located in the company's office. Mutual funds are held in a custodial account.

Stock certificates were physically examined by the examiners. The company's investment in stocks and mutual funds was in conformance with Wisconsin Statutes and the rules of the Commissioner of Insurance as regards investments made by town mutual insurers.

Dividends received during 2010 on stocks and mutual funds amounted to $7,860 and were traced to cash receipts records.

Book Value of Real Estate **$148,752**

The above amount represents the company's investment in real estate, net of depreciation, as of December 31, 2010. The company's real estate holdings consisted of the home office building and the land on which the building is situated.

The required documents supporting the validity of this asset were reviewed and were in order. Adequate hazard insurance was carried on the real estate and contents as noted in this report under the caption, "Fidelity Bond and Other Insurance." The company's investment in real estate and related items was in conformance with the Wisconsin Statutes and the rules of the Commissioner of Insurance as regards investments made by town mutual insurers. Real estate depreciation is calculated using the straight-line method.

Premiums, Agents' Balances in Course of Collection **$3,809**

This asset represents the amounts due from agents or policyholders which are not in excess of 90 days past due at year-end. A review of detailed premium records verified the accuracy of this asset.

Premiums Deferred and Not Yet Due **$233,038**

This asset represents modal premium installments (such as monthly, quarterly, etc.) that are not yet due. A review of a sample from the company’s detailed list of deferred premiums verified the accuracy of this asset.

Investment Income Accrued **$48,066**

Interest due and accrued on the various assets of the company at December 31, 2010, consists of the following:

Cash on deposit	$ 4,365
Bonds	43,701
Total	$48,066

Electronic Data Processing Equipment **$6,896**

The above balance consists of computer hardware and operating system software, net of depreciation, as of December 31, 2010. A review of receipts and other documentation verified the balance. Non-operating system software was properly nonadmitted.

Fire Dues Recoverable **$3,351**

This asset represents the amount overpaid to the State of Wisconsin for 2010 fire dues. The examiners reviewed the company's fire department dues calculation and found this asset to be correctly calculated. The actual amount paid was verified to the cash disbursement records.

Furniture and Fixtures **$0**

This asset consists of $4,351 of furniture and equipment owned by the company at December 31, 2010. In accordance with annual statement requirements, this amount has been reported as a nonadmitted asset, thus the balance shown above is $0.

Net Deferred Tax Assets **$0**

This asset consists of $31,300 of net deferred tax assets which represent the expected future tax consequences of temporary differences generated by statutory accounting. In accordance with annual statement requirements imposed on town mutual companies, this amount has been reported as a nonadmitted asset, thus the balance shown above is $0.

LIABILITIES AND SURPLUS

Net Unpaid Losses **$185,170**

This liability represents losses incurred on or prior to December 31, 2010, that remained unpaid as of that date. The examiners reviewed the reasonableness of this liability by totaling actual loss payments made subsequent to December 31, 2010, with incurred dates in 2010 and prior years. To the actual paid loss figure was added an estimated amount for 2010 and prior losses remaining unpaid at the time of the examination. The examiners' development of unpaid losses is compared with the amount estimated by the company in the following schedule.

	Company Estimate	Examiners' Development	Difference
Incurred but unpaid losses	$844,170	$864,540	$(20,370)
Less: Reinsurance recoverable on unpaid losses	659,000	693,000	(34,000)
Net Unpaid Losses	$185,170	$171,540	$13,630

Surplus was not adjusted for the above difference of $13,630 since it was not considered material for purposes of this examination.

The examiners' review of claim files included open claims, paid claims, claims closed without payment, and claims that were denied during the examination period. The review indicated that claims are investigated and evaluated properly and that payments are made promptly and in accordance with policy provisions upon the submission of a proper proof of loss. In addition, the review of claims handling procedures and files revealed the following:

1. A proper loss register is maintained.
2. Claim files contained sufficient investigatory data and documentation to verify settlement payments or reserve estimates.
3. Proofs of loss were properly signed when required by the company.

It is the company's stated practice to require proofs of loss in certain circumstances, including, but not limited to, fire, theft, and vandalism claims. However, the company has not established formal guidelines specifying the type of claims that require signed proofs of loss. 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.

Unpaid Loss Adjustment Expenses **$25,000**

This liability represents the company's estimate of amounts necessary to settle losses which were incurred prior to December 31, 2010, but which remained unpaid as of year-end. The methodology used by the company in establishing this liability is based on prior experience on a per claim basis.

The examiners' analysis of expenses incurred in the current year related to the settlement of prior year losses, as well as estimates of amounts necessary to settle any prior losses remaining unpaid at the examination date, determined this liability to be adequately stated.

Commissions Payable **$71,518**

This liability represents the commissions payable to agents as of December 31, 2010. The examiners reviewed the company’s subsequent commission payments and found the liability to be reasonably stated.

Federal Income Taxes Payable **$67,813**

This liability represents the balance payable at year-end for federal income taxes incurred prior to December 31, 2010. The examiners reviewed the company's 2010 tax return and verified amounts paid to cash disbursement records to verify the accuracy of this liability.

Unearned Premiums **$798,151**

This liability represents the reserve established for unearned premiums in compliance with s. Ins 13.08 (3), Wis. Adm. Code. This reserve was established using a daily pro rata methodology.

Reinsurance Payable **$52,671**

This liability consists of amounts due to the company's reinsurer at December 31, 2010, relating to transactions which occurred on or prior to that date. A review of year-end accountings with the reinsurer and subsequent payment verified the above number.

Other Expenses **$18,000**

This liability represented audit fee accrued at year-end. Supporting documents and subsequent cash disbursements verified this account.

Premiums Received in Advance **$44,558**

This liability represents the total premiums received prior to year-end for policies with effective dates after December 31, 2010. The examiners reviewed 2010 premium and cash receipt records to verify the accuracy of this liability.

V. CONCLUSION

Forward Mutual Insurance Company is the new name for the surviving entity in the merger of Watertown Mutual Insurance Company with and into Ixonia Mutual Insurance Company effective January 1, 2010. Both companies were organized more than 100 years ago and together served policyholders in 16 counties. At the time of the merger the company changed its name to Forward Mutual Insurance Company.

The company's surplus during the examination period increased by 30% from $3,976,530 to $5,177,301. The company has experienced underwriting income in three of the past six years. The company has shown net income in each of the last six years.

The current examination resulted in four recommendations which related to the company's cash and investment reporting, and establishment of procedures for obtaining a proof of loss statement from the insured.

VI. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 20 - 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.

2. Page 20 - 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.

3. Page 21 - 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.

4. Page 24 - 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.

VII. ACKNOWLEDGMENT

The courteous cooperation extended to the examiners by the company's personnel is hereby acknowledged.

In addition to the undersigned, Kristin Forsberg of the Office of the Commissioner of Insurance, State of Wisconsin, participated in the examination.

Respectfully submitted,

Elena Vetrina
Examiner-in-Charge