

Report
of the
Examination of
Rural Mutual Insurance Company
Madison, Wisconsin
As of December 31, 2014

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State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

Scott Walker, Governor
Theodore K. Nickel, Commissioner

Wisconsin.gov

January 11, 2016

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Honorable Theodore K. Nickel
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 (RMIC or the company) was conducted in 2010 as of December 31, 2009. The current examination covered the intervening period ending December 31, 2014, and included a review of such 2015 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 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 the audit of 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 with respect to the alternative or additional examination steps performed during the course of the examination.

Independent Actuary's Review

An independent actuarial firm was engaged under a contract with the Office of the Commissioner of Insurance. The actuary reviewed the adequacy of the company's loss and loss adjustment expense reserves. The actuary's results were reported to the examiner-in-charge. As deemed appropriate, reference is made in this report to the actuary's conclusion.

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.

RMIC writes personal, farm and commercial lines of business in Wisconsin only. 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 company is the largest farm writer in the state. 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, and farmers comprehensive property and liability lines. Other coverages are available to the general public.

All policies are written on a non-assessable basis and are marketed through approximately 150 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 Wisconsin, it has obtained a certificate of authority for the states of Illinois and Minnesota. Certificates of authority are held in Illinois and Minnesota to satisfy requirements in those states in relation to certificate of insurance requirements for farm or commercial policyholders that engage in interstate business endeavors. In 2014, the company wrote direct premium in the state of Wisconsin of \$174.2 million.

The following table is a summary of the net insurance premiums written by the company in 2014. 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	\$ 3,029,707	\$650,469	\$ 857,502	\$ 2,822,674
Farmowners multiple peril	57,986,818		10,081,613	47,905,205
Homeowner’s multiple peril	16,156,410		1,960,076	14,196,334
Commercial multiple peril	25,755,386		4,629,714	21,125,672
Other accident and health	614,401			614,401
Worker’s compensation	27,236,902		2,401,103	24,835,799
Other liability – claims made	102,946		48,001	54,945
Private passenger auto liability	16,778,889		481,231	16,297,658
Commercial auto liability	8,992,412	9,686	1,124,775	7,877,323
Auto physical damage	<u>17,590,447</u>	<u> </u>	<u>386,494</u>	<u>17,203,953</u>
Total All Lines	<u>\$174,244,318</u>	<u>\$660,155</u>	<u>\$21,970,509</u>	<u>\$152,933,964</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 may also be members of other boards of directors in the associated group. Board members elected to office for the first time on or after December 6, 2010, are no longer provided or permitted to enroll in RMIC'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 remain enrolled in RMIC's group health insurance plan or to 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 RMIC'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
Josef H. Bragger Independence, Wisconsin	Farmer	2017
Dave E. Daniels Union Grove, Wisconsin	Dairy Farmer	2018
Richard L. Gorder Mineral Point, Wisconsin	Dairy Farmer	2018
James A. Holte Elk Mound, Wisconsin	Agriculture	2016
Kevin D. Krentz Berlin, Wisconsin	Dairy Farmer	2018
Roseann M. Lisowe Chilton, Wisconsin	Dairy Farmer	2017
Arch A. Morton Janesville, Wisconsin	Dairy Farmer	2017

Name and Residence	Principal Occupation	Term Expires
Donald D. Radtke Merrill, Wisconsin	Farmer	2016
Wayne L. Staidl Peshtigo, Wisconsin	Production Agriculture	2016

Officers of the Company

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

Name	Office	2014 Compensation
James A. Holte *	President	\$ 0
Richard L. Gorder	First Vice President	18,000
Stephen J. Freese *	Secretary	0
Peter J. Pelizza	Executive Vice President and CEO	1,231,507
Daniel J. Merk	Vice President-Finance and Treasurer	342,379
Todd D. Argall	Vice President-Customer Acquisition & Service	451,129
Robert J. Larson	Vice President-Information Systems	291,667
Michael J. Ruder	Vice President-Underwriting	331,198

* Individuals are compensated by the Wisconsin Farm Service Board, Inc. (WFSB). WFSB is discussed further in the section of this report entitled "Affiliated Companies."

Committees of the Board

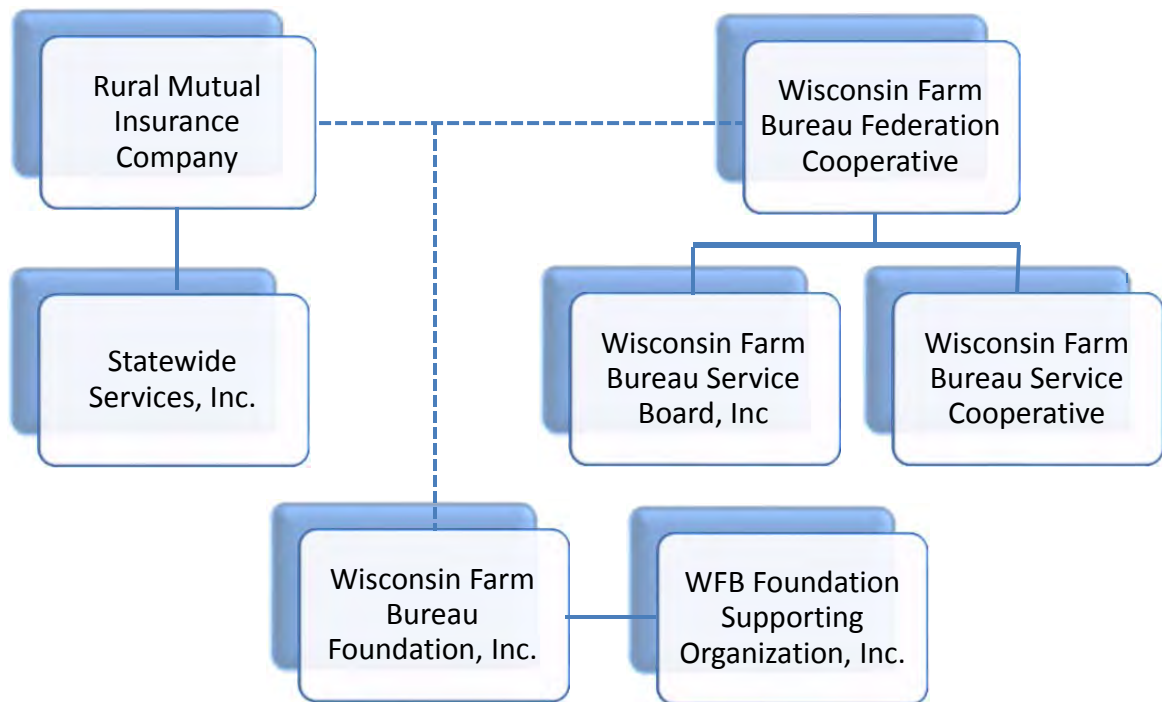
The company has no board committees at the time of the examination.

IV. AFFILIATED COMPANIES

The company owns 100% of Statewide Services, Inc. RMIC is affiliated with 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, 2014



Statewide Services, Inc.

Statewide Services, Inc. (SSI) was incorporated in April 1973 to provide brokerage services for RMIC by placing business written by RMIC agents with outside insurers as necessary, and to place business for the WFBF and its affiliates with RMIC when possible and with outside companies as necessary. The company 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 board of directors and RMIC board of directors.

As of December 31, 2014, the unaudited financial statements of Statewide Services, Inc., reported assets of \$364,740, liabilities of \$323,601, and stockholders' equity of \$41,139. Operations for 2014 produced net income of \$106,268. SSI paid dividends in the amount of \$105,000 to RMIC.

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 also 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, 9 of whom also serve on the RMIC board of directors. Membership in WFBF is required in order to purchase farmowners, country estate, crop hail, home or auto coverages from RMIC. There are 62 County Farm Bureaus affiliated with the WFBF.

The cooperative's fiscal year is from October 1 to September 30. As of September 30, 2015, the audited consolidated financial statements of WFBF and its subsidiaries reported assets of \$3,123,694, liabilities of \$723,390, and net assets of \$2,400,304. Operations for 2015 produced increase in net assets of \$122,192.

Wisconsin Farm Bureau Service Board, Inc.

Wisconsin Farm Bureau Service Board (WFBSB) was incorporated on March 8, 1943. It is a not-for-profit 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 James Holte, Richard Gorder, Dale Peterson, Peter Pelizza, and Stephen Freese. 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 (WFBSC) is a for-profit cooperative 100% owned by WFBF and was incorporated in 1944. WFBSC 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) is a nonprofit entity affiliated with WFBF. WFBFD was organized for and has a mission to support agricultural education and leadership programs. WFBFD was established in 1988.

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

The company has an operational agreement with Statewide Services, Inc.(SSI) effective January 1, 1979, whereby RMIC 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 settlement of intercompany balances.

Consolidated Income Tax Return Agreement

There is a consolidated income tax return agreement between RMIC 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 RMIC and WFBF, effective January 1, 2001, is an agreement that permits RMIC 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 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. The agreement was amended January 1, 2010, to modify the annual royalty payment provisions; the payment was changed to 0.4% of RMIC's total direct written premium for the preceding full calendar year.

Shared Services Agreement

A shared services agreement between RMIC 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 mail room;
- 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; and
- 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, RMIC is the exclusive property and casualty insurance company

sponsor for certain events, and in turn WFBF will identify RMIC as a sponsor of the event by displaying the company's name and logo in publicity. RMIC will remit an agreed-upon amount quarterly to WFBF in order to sponsor certain WFBF-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

RMIC has a service board agreement with WFBSB, effective April 30, 1971. The purpose of the agreement is to coordinate the activities of RMIC 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 RMIC 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 RMIC unless specifically authorized by RMIC's board.

In 2012, RMIC 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: RMIC, 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 is described below. A list of the companies that have a significant amount of reinsurance in force at the time of the examination follows. The contracts contained proper insolvency provisions. Excess of loss coverages are ceded to multiple reinsurance companies through a broker. Compliance with the Reinsurance Intermediary Act was noted. In addition, RMIC assumes reinsurance for crop hail through a mandatory pool in order to obtain crop hail coverage from American Agricultural Insurance Company.

Nonaffiliated Ceding Contracts

1. Type: Multiple Line Excess of Loss

Reinsurer:

Reinsurer	Participation			
	1st Layer	2nd Layer	3rd Layer	4th Layer
AXIS Reinsurance Company	7.50%	7.50%	7.50%	7.50%
Maiden Reinsurance Company	27.50	27.50	27.50	27.50
QBE Reinsurance Corporation	37.50	37.50	37.50	22.50
Transatlantic Reinsurance Company	7.50	7.50	7.50	10.00
American Agricultural Ins. Co.*	5.00	5.00	5.00	5.00
Hannover Rueck SE	<u>15.00</u>	<u>15.00</u>	<u>15.00</u>	<u>27.50</u>
Total	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>

* American Agricultural Ins. Co. became a party to the agreement effective January 1, 2015.

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

Retention:

<u>First Layer:</u>	
Property business:	\$500,000
Casualty business:	\$500,000
<u>Second Layer:</u>	
Property business:	\$2,000,000
Casualty business:	\$2,000,000
<u>Third Layer:</u>	
Property business:	\$5,000,000
Casualty business:	\$5,000,000
<u>Fourth Layer:</u>	
Property business:	\$10,000,000
Casualty business:	\$10,000,000

Coverage:	<p><u>First Layer:</u> Property business: \$1,500,000 excess of \$500,000 each risk subject to \$4,500,000 limit per occurrence Casualty business: \$1,500,000 excess of \$500,000 each occurrence and/or claim made and in aggregate where applicable per policy</p> <p><u>Second Layer:</u> Property business: \$3,000,000 excess of \$2,000,000 each risk subject to \$6,000,000 limit per occurrence Casualty business: \$3,000,000 excess of \$2,000,000 each occurrence and/or claim made and in aggregate where applicable per policy</p> <p><u>Third Layer:</u> Property business: \$5,000,000 excess of \$5,000,000 each risk subject to \$10,000,000 limit per occurrence Casualty business: \$5,000,000 excess of \$5,000,000 each occurrence and/or claim made and in aggregate where applicable per policy</p> <p><u>Fourth Layer:</u> Property business: \$5,000,000 excess of \$10,000,000 each risk subject to \$10,000,000 limit per occurrence Casualty business: \$5,000,000 excess of \$10,000,000 each occurrence and/or claim made and in aggregate where applicable per policy</p>
Premium:	<p><u>First Layer:</u> Annual deposit premium of \$7,603,851 (net of ceding commission) to be adjusted against 7.25% (gross rate) of net earned premium; minimum premium of \$6,083,081</p> <p><u>Second Layer:</u> Annual deposit premium of \$1,311,009 (net of ceding commission) to be adjusted against 1.25% (gross rate) of net earned premium; minimum premium of \$1,048,807</p> <p><u>Third Layer:</u> Annual deposit premium of \$891,486 (net of ceding commission) to be adjusted against 0.85% (gross rate) of net earned premium; minimum premium of \$713,189</p> <p><u>Fourth Layer:</u> Annual deposit premium of \$471,963 (net of ceding commission) to be adjusted against 0.45% (gross rate) of net earned premium; minimum premium of \$377,570</p>
Commission:	Flat rate of 30% on the net earned premium ceded for each layer
Effective date:	January 1, 2014, to December 31, 2015
Termination:	January 1, 2016, or by giving 30 days' prior written notice upon the happening of special circumstances as defined in the contract

2. Type: Worker's Compensation Excess of Loss

Reinsurer: Safety National Casualty Corporation

Scope: All business classified by the company as worker's compensation and employers liability

Retention: \$10,000,000

Coverage: First Layer:
\$5,000,000 ultimate net loss each occurrence excess of
\$10,000,000 ultimate net loss each occurrence
Employer's liability limited to \$1,000,000 on underlying policies

Second Layer:
\$10,000,000 ultimate net loss each occurrence excess of
\$15,000,000 ultimate net loss each occurrence
Employer's liability limited to \$1,000,000 on underlying policies

Premium: First Layer:
Minimum and deposit premium of \$134,764 payable in equal installments in advance; to be adjusted at agreement expiration against 0.505% of net earned premium for classes of business as specified

Second Layer:
Minimum and deposit premium of \$180,664 payable in equal installments in advance; to be adjusted at agreement expiration against 0.677% of net earned premium for classes of business as specified

Effective date: January 1, 2015

Termination: January 1, 2016, or by giving 30 days' prior written notice upon the happening of special circumstances as defined in the contract

3. Type: Property Catastrophe Excess of Loss

Reinsurer:

<u>Reinsurer</u>	<u>Participation</u>				
	<u>1st X/S</u>	<u>2nd X/S</u>	<u>3rd X/S</u>	<u>4thX/S</u>	<u>5thX/S</u>
Allied World Insurance Company	20.5%	17.5%	17.5%	0.0%	0.0%
Aspen Bermuda Limited	5.0	5.0	5.0	0.0	0.0
Employers Mutual Casualty Company	3.5	3.5	2.5	0.0	0.0
Hannover Re (Bermuda) Ltd.	0.0	7.5	7.5	0.0	0.0
Hannover Ruck SE	5.0	0.0	0.0	0.0	0.0
Munich Reinsurance America, Inc.	30.0	10.0	0.0	0.0	0.0
QBE Reinsurance Corporation	5.0	5.0	5.0	0.0	0.0
R+V Versicherung AG	30.0	30.0	30.0	0.0	0.0
Shelter Mutual Insurance Company	1.0	2.5	2.5	0.0	0.0

<u>Reinsurer</u>	<u>Participation</u>				
	<u>1st X/S</u>	<u>2nd X/S</u>	<u>3rd X/S</u>	<u>4thX/S</u>	<u>5thX/S</u>
Montpelier Reinsurance Ltd.	0.0	2.5	10.0	0.0	0.0
Swiss Re America Corporation	0.0	10.0	10.0	100.0	0.0
Transatlantic Reinsurance Company	0.0	2.5	5.0	0.0	0.0
Lloyd's Underwriters	0.0	4.0	5.0	0.0	0.0
Taiping Reinsurance Co, Ltd. Hong Kong	0.0	0.0	0.0	0.0	7.5
Everest Reinsurance Company	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>15.0</u>
Total Placement	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>22.5%</u>

Scope: All policies classified by the company as property (except for crop hail) and automobile physical damage

Retention: The company shall retain the following amount of the ultimate net loss each loss occurrence in each of the five layers of the contract:

First Excess	\$3,000,000
Second Excess	\$12,000,000
Third Excess	\$22,000,000
Fourth Excess	\$42,000,000
Fifth Excess	\$52,000,000

Coverage: First Layer:
\$9,000,000 ultimate net loss in excess of \$3,000,000 any one loss occurrence limited to an aggregate of \$ 18,000,000
Second Layer:
\$10,000,000 ultimate net loss in excess of \$12,000,000 any one loss occurrence limited to an aggregate of \$20,000,000
Third Layer:
\$20,000,000 ultimate net loss in excess of \$22,000,000 any one loss occurrence limited to an aggregate of \$40,000,000
Fourth Layer:
\$10,000,000 ultimate net loss in excess of \$42,000,000 any one loss occurrence limited to an aggregate of \$20,000,000.
Fifth Layer:
22.5% of \$10,000,000 ultimate net loss in excess of \$52,000,000 any one loss occurrence limited to an aggregate of \$20,000,000

Reinstatement: For each amount reinstated under the First Layer, the company shall pay an additional premium based upon the pro rata amount of the reinstatement only. For each amount so reinstated under Second, Third, Fourth and Fifth Layers, the company shall pay an additional premium based upon the pro rata amount of the reinstatement and 50% as to time.

Premium: Premium rates as a percentage of net subject premiums earned by the company:

First Layer	3.520%
Second Layer	0.663%

Third Layer 0.559%
 Fourth Layer 0.237%
 Fifth Layer 0.217%

Annual minimum and deposit premiums:

	<u>Minimum Premium</u>	<u>Deposit Premium</u>
First Layer	\$2,016,000	\$2,520,000
Second Layer	380,000	475,000
Third Layer	320,000	400,000
Fourth Layer	136,000	170,000
Fifth Layer	128,000	160,000

Effective date: January 1, 2014, to January 1, 2016
 Fifth Layer effective date: January 1, 2015, to January 1, 2016

Termination: January 1, 2016, or by giving 30 days' prior written notice upon the happening of special circumstances as defined in the contract

4. Type: Multi-line Aggregate Excess of Loss

Reinsurer: American Agricultural Insurance Company

Scope: All lines of business written by RMIC excluding crop hail and accident and health

Retention: 69.9% of Net Earned Premium

Coverage: Annual limit of liability is \$14,000,000 in excess of the retention and limited to an aggregate of \$42,000,000 over the policy term. The agreement may be commuted at the sole opinion of the reinsured at the end of the cover year, subject to at least 30 days' prior written notice to the reinsurer, provided the experience account balance at that time is positive.

Premium: Rate of 2.239% of net earned premium; minimum annual premium of \$2,970,000 for 2015; reinsurer is guaranteed an expense margin of 13.30% of premium ceded

Effective date: January 1, 2015

Termination: January 1, 2018, or by giving 30 days' prior written notice upon the happening of special circumstances as defined in the contract

5. Type: Cyber Coverage Quota Share Reinsurance Agreement

Reinsurer: Berkley Insurance Company

Scope: All business classified as cyber coverage underwritten by the company

Retention: 10% quota share participation of the ultimate net loss under each cyber coverage policy

Coverage:	90% quota share participation of the company's ultimate net loss under each cyber coverage policy limited to \$1,000,000 each occurrence and in the aggregate
Premium:	Quota share percentage of the gross premium written for each reinsured policy
Commission:	27.5%
Effective date:	September 1, 2015
Termination:	September 1, 2018, or by the reinsurer at any time by giving 90 days' prior written notice
6. Type:	Property Equipment Breakdown Quota Share
Reinsurer:	Factory Mutual Insurance Company
Scope:	Commercial multi-peril, business owners, farmowners, country estate and homeowner's insurance policies
Retention:	None
Coverage:	100% quota share for amounts for equipment breakdown up to \$25,000,000 for any one commercial multi-peril, business owners, farmowners and country estate risk 100% quota share for amounts for equipment breakdown up to \$50,000 for any one homeowner's risk
Premium:	100% of premium for equipment breakdown policies
Commissions:	Ceding commission of 35% on all ceded premium and profit sharing on business ceded as follows: if losses incurred are less than 34.5% of premium earned, the company will receive a profit-sharing equal to one-half of the difference between the losses incurred and 34.5% of premium earned during the profit-sharing period
Effective date:	December 1, 2007
Termination:	On April 1, July 1, October 1 or January 1 in any year by either party giving 90 days' prior notice in writing
7. Type:	Insurance Agents Professional Liability Reinsurance Agreement
Reinsurer:	American Agricultural Insurance Company
Scope:	Professional liability for insurance agents and brokers appointed by or engaged to act for the company in the "Capacity of Exclusive Agent," office assistant, customer service representative or county secretary to the extent they are doing business for and behalf of the company
Retention:	\$20,000 each loss and \$20,000 on an aggregate per coverage year

Coverage: First Layer:
\$980,000 of ultimate net losses in excess of \$20,000 any one loss occurrence limited to an aggregate of \$980,000
Second Layer:
\$1,000,000 of ultimate net losses in excess of \$1,000,000 any one loss occurrence limited to an aggregate of \$1,000,000

Premium: First Layer:
\$200 per insured
Second Layer:
\$90 per insured if 100% of reinsured's exclusive agents and brokers participate, otherwise \$180 per participating insured

Effective date: January 1, 2015

Termination: The agreement was terminated effective July 1, 2015

8. Type: Property Facultative Reinsurance Agreement

Reinsurer: Ascot Underwriting Inc. on behalf of Lloyd's Syndicate #1414

Scope: Real and personal property including business interruption, inland marine and all risks of direct physical loss or damage, excluding earthquake, flood and boiler and machinery

Retention: \$15,000,000 per location

Coverage: \$20,000,000 per location in excess of \$ 15,000,000 per location

Premium: \$50,000 net, minimum and deposit adjusted as follows:
.03% on exposed values for commercial, farmowners and residential risks and .02% on exposed risks values for commercial risks that are 100% automatic sprinklers

Effective date: January 1, 2015

Termination: January 1, 2017, or either party giving 90 days' prior written notice

9. Type: Proportional Excess of Loss

Reinsurer: American Agricultural Insurance Company

Scope: Crop hail

Retention and coverage: RMIC will be reimbursed on a proportional basis for the amount of ultimate net loss on any one risk subject to the different cession percentages for each layer as follows:

Layer	Limit	Retention	Cession
Basic	\$ 500,000	25%	75%
1st Surplus	1,750,000	10	90
2nd Surplus	3,000,000	0	100
3rd Surplus	5,000,000	0	100

- Premium: Premiums are calculated using a formula which factors in the anticipated loss ratio, experience factor, and profit and expense load
- Effective date: January 1, 2015
- Termination: At the end of any calendar year by either party with written notice 90 days prior to year-end to the other by certified or registered mail
10. Type: Aggregate Excess of Loss
- Reinsurer: American Agricultural Insurance Company (AAIC)
- Scope: Crop hail
- Retention: 192% of retained loss costs (estimated to be \$309,992)
- Coverage: 100% of losses in excess of the company's retention up to 187.2% of retained loss costs
- Premium: At the beginning of the coverage year AAIC will calculate an estimated retained loss cost which is multiplied by 5.35% to obtain an estimated annual premium. The final annual premium is computed March 31 in the subsequent year. A deposit premium of \$16,600 is required.
- Effective date: January 1, 2015
- Termination: At the end of any calendar year by either party with written notice 90 days prior to year-end to the other by certified or registered mail

Nonaffiliated Assuming Contracts

1. Type: Proportional Crop Hail Pool
- Reinsured: American Agricultural Insurance Company
- Scope: Crop hail
- Coverage: The company assumes 12.61% of the quota share pool and 4% of the first, second, and third surplus shares of the proportional crop hail pools. Coverage is 100% above a 150% loss ratio retention.
- Premium: Pro rata share of subject pool premiums based on the above participation percentage subject to a 1.5% service fee
- Effective date: January 1, 2015
- Termination: At the end of any calendar year by either party with written notice 60 days prior to year-end to the other by certified or registered mail

2. Type: Aggregate Excess Crop Hail Pool
- Reinsured: American Agricultural Insurance Company
- Scope: Crop hail
- Coverage: 4% of the aggregate excess crop hail pool experience; 3% of each of the first and second layer of the Illinois crop hail pool experience
- Premium: Pro rata share of subject pool premiums based on the above participation percentage subject to a 2% service fee
- Effective date: January 1, 2015
- Termination: At the end of any calendar year by either party with written notice 60 days prior to year-end to the other by certified or registered mail

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, 2014, 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, 2014

	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	\$290,659,006	\$	\$290,659,006
Stocks:			
Preferred stocks	1,100,000		1,100,000
Common stocks	40,498,378	41,139	40,457,239
Real estate:			
Occupied by the company	76,992		76,992
Cash, cash equivalents, and short-term investments	3,361,812		3,361,812
Other invested assets	481,901		481,901
Investment income due and accrued	2,620,891		2,620,891
Premiums and considerations:			
Uncollected premiums and agents' balances in course of collection	11,468,747	1,117,592	10,351,155
Deferred premiums, agents' balances, and installments booked but deferred and not yet due	25,319,418	47,600	25,271,818
Reinsurance:			
Amounts recoverable from reinsurers	681,465		681,465
Net deferred tax asset	6,284,776		6,284,776
Electronic data processing equipment and software	392,670		392,670
Furniture and equipment, including health care delivery assets	134,536	134,536	
Receivable from parent, subsidiaries, and affiliates	399,960		399,960
Write-ins for other than invested assets:			
Other receivables	837,418	373,063	464,355
Cash surrender value-COLI	3,308,090		3,308,090
Prepaid expenses	<u>392,770</u>	<u>392,770</u>	<u> </u>
Total Assets	<u>\$388,018,830</u>	<u>\$2,106,700</u>	<u>\$385,912,130</u>

Rural Mutual Insurance Company
Liabilities, Surplus, and Other Funds
As of December 31, 2014

Losses		\$ 75,483,910
Loss adjustment expenses		16,238,258
Commissions payable, contingent commissions, and other similar charges		2,935,824
Other expenses (excluding taxes, licenses, and fees)		5,971,399
Taxes, licenses, and fees (excluding federal and foreign income taxes)		1,378,581
Current federal and foreign income taxes		1,923,000
Unearned premiums		69,664,571
Advance premium		3,210,416
Dividends declared and unpaid:		
Policyholders		605,000
Ceded reinsurance premiums payable (net of ceding commissions)		325,960
Amounts withheld or retained by company for account of others		420,495
Remittances and items not allocated		1,957
Payable to parent, subsidiaries, and affiliates		20,981
Write-ins for liabilities:		
Escheat payable		252,466
Liability for pension benefits		5,646,487
Reserve for agents' deferred compensation		<u>7,816,368</u>
Total liabilities		191,895,673
Unassigned funds (surplus)	<u>\$194,016,457</u>	
Surplus as regards policyholders		<u>194,016,457</u>
Total Liabilities and Surplus		<u>\$385,912,130</u>

**Rural Mutual Insurance Company
Summary of Operations
For the Year 2014**

Underwriting Income		
Premiums earned		\$148,903,514
Deductions:		
Losses incurred	\$79,512,259	
Loss adjustment expenses incurred	9,460,382	
Other underwriting expenses incurred	<u>38,314,579</u>	
Total underwriting deductions		<u>127,287,220</u>
Net underwriting gain (loss)		21,616,294
Investment Income		
Net investment income earned	7,217,012	
Net realized capital gains (losses)	<u>642,137</u>	
Net investment gain (loss)		7,859,149
Other Income		
Net gain (loss) from agents' or premium balances charged off	(191,863)	
Finance and service charges not included in premiums	850,642	
Write-ins for miscellaneous income:		
Gain (loss) on disposal of equipment	(24)	
Miscellaneous income	6,224	
Increase in cash surrender value - COLI	<u>203,579</u>	
Total other income		<u>868,558</u>
Net income (loss) before dividends to policyholders and before federal and foreign income taxes		30,344,001
Dividends to policyholders		<u>2,135,835</u>
Net income (loss) after dividends to policyholders but before federal and foreign income taxes		28,208,166
Federal and foreign income taxes incurred		<u>8,228,856</u>
Net Income		<u>\$ 19,979,310</u>

Rural Mutual Insurance Company
Cash Flow
For the Year 2014

Premiums collected net of reinsurance		\$150,428,938
Net investment income		9,756,800
Miscellaneous income		<u>868,558</u>
Total		161,054,296
Benefit- and loss-related payments	\$ 75,558,671	
Commissions, expenses paid, and aggregate write-ins for deductions	46,513,862	
Dividends paid to policyholders	2,263,835	
Federal and foreign income taxes paid (recovered)	<u>8,270,314</u>	
Total deductions		<u>132,606,682</u>
Net cash from operations		28,447,614
Proceeds from investments sold, matured, or repaid:		
Bonds	\$ 88,935,385	
Stocks	110,641,695	
Other invested assets	<u>72,502</u>	
Total investment proceeds		199,649,582
Cost of investments acquired (long-term only):		
Bonds	114,285,076	
Stocks	109,082,740	
Miscellaneous applications	<u>2,968,450</u>	
Total investments acquired		<u>226,336,267</u>
Net cash from investments		(26,686,684)
Cash from financing and miscellaneous sources:		
Other cash provided (applied)	<u>(2,810,721)</u>	
Net cash from financing and miscellaneous sources		<u>(2,810,721)</u>
Reconciliation:		
Net change in cash, cash equivalents, and short-term investments		(1,049,791)
Cash, cash equivalents, and short-term investments:		
Beginning of year		<u>4,411,603</u>
End of Year		<u>\$ 3,361,812</u>

**Rural Mutual Insurance Company
Compulsory and Security Surplus Calculation
December 31, 2014**

Assets		\$385,912,130
Less liabilities		<u>191,895,673</u>
Adjusted surplus		194,016,457
Annual premium:		
Individual accident and health	\$ 614,401	
Factor	<u>15%</u>	
Total		\$ 92,160
Lines other than accident and health	150,183,728	
Factor	<u>20%</u>	
Total		<u>30,036,745</u>
Compulsory surplus (subject to a minimum of \$2 million)		<u>30,128,905</u>
Compulsory Surplus Excess (or Deficit)		<u>\$163,887,552</u>
Adjusted surplus (from above)		\$194,016,457
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>40,975,310</u>
Security Surplus Excess (or Deficit)		<u>\$153,041,147</u>

**Rural Mutual Insurance Company
Analysis of Surplus
For the Five-Year Period Ending December 31, 2014**

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

	2014	2013	2012	2011	2010
Surplus, beginning of year	\$176,542,867	\$156,128,464	\$145,507,886	\$136,496,688	\$125,062,570
Net income	19,979,310	18,132,815	8,762,546	8,612,096	9,655,465
Change in net unrealized capital gains/losses	2,256,049	3,810,933	1,218,518	307,821	1,076,820
Change in net deferred income tax	2,464,134	734,042	611,721	(107,742)	410,219
Change in nonadmitted assets	163,751	(486,581)	27,793	214,878	164,165
Cumulative effect of changes in accounting principles		(6,313,884)			
Write-ins for gains and (losses) in surplus:					
Application of SSAP					
No 10R for deferred taxes				(15,855)	127,449
Change in minimum liability - pension plans	(6,943,113)	4,075,533			
Change in minimum liability - postretirement plan	(446,541)	461,545			
Surplus, End of Year	<u>\$194,016,457</u>	<u>\$176,542,867</u>	<u>\$156,128,464</u>	<u>\$145,507,886</u>	<u>\$136,496,688</u>

**Rural Mutual Insurance Company
Insurance Regulatory Information System
For the Five-Year Period Ending December 31, 2014**

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	2014	2013	2012	2011	2010
#1 Gross Premium to Surplus	90.0%	94.0%	100.0%	101.0%	104.0%
#2 Net Premium to Surplus	79.0	82.0	87.0	88.0	91.0
#3 Change in Net Premiums Written	6.0	6.0	6.0	3.0	0.0
#4 Surplus Aid to Surplus	0.0	0.0	0.0	0.0	0.0
#5 Two-Year Overall Operating Ratio	81.0	86.0	91.0	90.0	87.0
#6 Investment Yield	2.2*	2.6*	3.0*	3.2	3.6
#7 Gross Change in Surplus	10.0	13.0	7.0	7.0	9.0
#8 Change in Adjusted Surplus	10.0	13.0	7.0	7.0	9.0
#9 Liabilities to Liquid Assets	49.0	50.0	50.0	51.0	50.0
#10 Agents' Balances to Surplus	5.0	6.0	3.0	4.0	0.0
#11 One-Year Reserve Development to Surplus	-4.0	-5.0	-4.0	-5.0	-3.0
#12 Two-Year Reserve Development to Surplus	-7.0	-9.0	-7.0	-7.0	-5.0
#13 Estimated Current Reserve Deficiency to Surplus	-3.0	-3.0	-5.0	-7.0	-7.0

Ratio No. 6 measures the average return on the company's investments. A large portion of the company's portfolio is allocated to tax-exempt municipal bonds which earn lower investment yields compared to other fixed income securities. The low interest rate environment also contributed to the exceptional results.

Growth of Rural Mutual Insurance Company

Year	Admitted Assets	Liabilities	Surplus as Regards Policyholders	Net Income
2014	\$385,912,130	\$191,895,673	\$194,016,457	\$19,979,310
2013	356,636,907	180,094,040	176,542,867	18,132,815
2012	324,002,882	167,874,418	156,128,464	8,762,546
2011	305,449,305	159,941,419	145,507,886	8,612,096
2010	291,474,595	154,977,907	136,496,688	9,655,465
2009	270,695,024	145,632,454	125,062,570	12,537,333

Year	Gross Premium Written	Net Premium Written	Premium Earned	Loss and LAE Ratio	Expense Ratio	Combined Ratio
2014	\$174,904,473	\$152,933,964	\$148,903,514	59.8%	24.5%	84.3%
2013	166,615,580	144,672,244	140,620,229	59.7	25.4	85.1
2012	156,141,520	136,016,207	131,843,646	60.4	34.9	95.3
2011	146,411,333	128,455,058	126,637,113	68.5	27.1	95.6
2010	142,187,619	124,319,766	122,730,796	66.6	26.7	93.3
2009	139,223,617	124,187,498	122,728,271	63.7	25.2	88.9

RMIC's operating results have been strong over the past five years. The company's assets increased by 43% and liabilities increased by 32%. The company reported steady premium and surplus growth. Surplus increased approximately 55% since December 31, 2009, due to the consistently strong underwriting profitability and reasonable return on investments. The company continued to focus on disciplined underwriting by maintaining strict underwriting guidelines and adequate rate levels. In 2014, RMIC reported \$21.6 million in underwriting gains, being the highest in the past 10 years of the company's operations. The company's expense ratio increased nearly eight points in 2012 due to a management decision to make an extraordinary pension contribution to its defined pension plan. The ratio returned back to its normal level in 2013 and 2014. Loss and LAE ratio decreased from 63.7% in 2009 to 59.8% in 2014, resulting in combined ratio of 84.3%.

Gross premium written increased 30% from \$ 139.2 million in 2009 to \$174.9 million in 2014, due to the increase 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, 2014, is accepted.

VII. 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. Management and Control—It is recommended that the company properly file biographical information in accordance with s. Ins 6.52 (5), Wis. Adm. Code.

Action—Compliance.

2. Management and Control—It is recommended that the company report all remuneration paid to or on behalf of a director, officer, or employee, on both the State of Wisconsin Report on Executive Compensation and the NAIC Supplemental Compensation Exhibit as required by the respective instructions for those forms.

Action—Compliance.

3. Management and Control—It is recommended that the company properly report any action taken by the board regarding compensation on any officer of the company in accordance with s. 611.63 (3), Wis. Stat.

Action—Compliance.

4. Investments—It is recommended that the company maintain its custodial agreement in accordance with the requirements set forth in the NAIC Financial Condition Examiners Handbook.

Action—Compliance.

Summary of Current Examination Results

The current examination resulted in no adverse or material findings.

VIII. CONCLUSION

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

During the period under examination RMIC continued to maintain strong market position and remained the largest farm writer in the state of Wisconsin. The company's admitted assets increased 43%, premiums earned increased 21% and surplus increased 55% in the last five years. The increase in admitted assets and surplus was a result of investment income growth and strong underwriting profitability. The company maintains conservative investment portfolio consisting of high-quality fixed income securities comprised of tax-exempt municipal bonds, investment grade corporate bonds and U.S. government obligations.

Growth in premiums was primarily attributable to the increase in policies in force, overall rate increase and new business growth. Gross and net premium written increased during the five-year period by 26% and 23%, respectively. The company is well capitalized and financially stable with a surplus of \$194,016,457, assets of \$385,912,130 and liabilities of \$191,895,673.

The company complied with the four recommendations from the previous examination report.

IX. SUMMARY OF COMMENTS AND RECOMMENDATIONS

The current examination resulted in no recommendations. There were no adjustments or reclassifications to the balance sheet amounts 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
John Ebsen	Insurance Financial Examiner
Dana Tice	Insurance Financial Examiner
Jerry DeArmond	Insurance Financial Examiner – Advanced, Loss Reserve Specialist
Thomas Houston	Insurance Financial Examiner – Advanced, Information Systems Audit Specialist
John Litweiler	Insurance Financial Examiner – Advanced, Exam Planning and Quality Control Specialist

Respectfully submitted,

Ana Careaga
Examiner-in-Charge