



State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

Scott Walker, Governor  
Theodore K. Nickel, Commissioner

125 South Webster Street • P.O. Box 7873  
Madison, Wisconsin 53707-7873  
Phone: (608) 266-3585 • Fax: (608) 266-9935  
E-Mail: ociinformation@wisconsin.gov  
Web Address: oci.wi.gov

DATE: October 1, 2018 - PUBLIC  
TO: Amy Malm *AM*  
Kristin Forsberg *KLF*  
FROM: Elena Vetrina *EVV*  
SUBJECT: Form A: Merger of Little Black Mutual Insurance Company with and into Farmington Mutual Insurance Company

The purpose of this Memo is to summarize the results of OCI's analysis with respect to the above-referenced Form A filing ("Form A") regarding the proposed merger of Little Black Mutual Insurance Company with and into Farmington Mutual Insurance Company, in accordance with the requirements set forth in s. 611.73 Wis. Stat., and s. Ins. 40.02, Wis. Adm. Code.

**Form A Filing Contact**

**Application Contacts:**

Mike Soldan  
General Manager  
Farmington Mutual Insurance Company  
264 State Road 35  
Osceola, WI 54020  
Tel.: 715-294-3186  
E-mail: mike@farmingtonmutual.com

Tony Wilke  
President  
Little Black Mutual Insurance Company  
141 South Wisconsin Ave  
P.O. Box 406  
Medford, WI 54451  
Tel. 715-748-6040  
E-mail: twilke@littleblackmutual.com

Noreen J. Parrett  
Parrett & O'Connell, LLP  
10 East Doty Street, Suite 615  
Madison, WI 53573  
Tel.: 608-251-1967  
E-mail: nparrett@parrettoconnell.com

Exh #	<u>C</u>
Date	<u>10-2-18</u>
Case	<u>18-C42782</u>
Ins. Comm.	

**Form A Exhibits**

**Public Information:**

- **Exhibit A – Agreement and Plan of Merger (amended and resubmitted on September 12)**
- **Exhibit B – Proposed Amended and Restated Bylaws of Farmington Mutual Insurance Company**
- **Exhibit C- Directors and Officers of Acquiring Corporation**
- **Exhibit D – Proposed Directors and Officers of Surviving Corporation**
- **Exhibit E – Audited Annual Statements (no statements attached - reference is given to statements filed with OCI)**
- **Exhibit H – Farmington Board Resolution**
- **Exhibit I – Little Black Board Resolution**

**Requested Confidential Treatment:**

- **Exhibit D – Biographical Affidavits for Officers of the Surviving Company**
- **Exhibit F – Financial Pro-Forma**
- **Exhibit G – Business Plan**

**Executive Summary**

The Form A concerns the proposed merger of Little Black Mutual Insurance Company with and into Farmington Mutual Insurance Company.

Little Black Mutual Insurance Company (Little Black) is a Wisconsin-domiciled mutual property and casualty insurance company located in Medford, Wisconsin. It was originally organized as a town mutual insurance company on June 4, 1889, and converted to an assessable mutual insurance company under ch. 611, Wis. Stat., on January 1, 1998. It is authorized to write business throughout Wisconsin; it is not licensed in any other state. The assessment liability of the company's policyholders is limited to one times the annual premium in force at the date of the assessment. Little Black is required to hold permanent surplus of \$1 million. Little Black is subject to the same rules and regulation regarding reinsurance coverages that are applicable to all town mutual insurers. Although Little Black is authorized to write insurance throughout Wisconsin, it confines its writing largely to a 17-county area in northern Wisconsin, with a large concentration in Taylor County. It produces business through independent agents. It is licensed to write the following lines of business:

- 2(a) – Fire, Inland Marine and Other Property Insurance
- 2(d) – Liability and Incidental Medical Expense (Other than Automobile) Insurance
- 2(e) - Automobile
- 2(n) – Miscellaneous

The company's major lines of business include homeowner's and farmowner's multiple peril coverages.

Farmington Mutual Insurance Company (Farmington) is a Wisconsin-domiciled mutual property and casualty insurance company located in Osceola, Wisconsin. It was organized as a town mutual insurer in 1878; it converted to a nonassessable mutual insurance company under ch. 611, Wis. Stat., in September 1996. It is authorized to write business throughout Wisconsin; it is not licensed in any other state. It confines its writing to the northwestern part of the state, with a large concentration in Polk County. Although Farmington is not formally subjected to the same rules and regulations regarding reinsurance coverages that are applicable to all town mutual insurers, it complies with these rules. It markets its business through independent agents. Farmington is licensed to write the following lines of business

- 2(a) – Fire, Inland Marine and Other Property Insurance
- 2(d) – Liability and Incidental Medical Expense (Other than Automobile) Insurance

The company's major lines of business include farmowner's and homeowner's multiple peril coverages.

Neither company is rated by AM Best.

The proposed transaction is a merger of two domestic mutual companies and is governed by s. 611.73, Wis. Stat. The proposed transaction will result in Little Black being merged with and into Farmington. There will be no consideration paid, dividends declared or sale of any assets. The territories in which the companies concentrate their writings do not overlap. Both companies have the same computer system and both are insured by Wisconsin Reinsurance Corporation. Since the proposed transaction has Farmington as the surviving entity, all policies after the merger is effectuated, will become nonassessable. The merger will expand the writing territory of the surviving company, spread the risk of loss to a greater geographic area, and create savings in reinsurance costs. The effective date of the merger will be December 31, 2018.

### The Merger

The specific terms and conditions included in the Proposed Agreement and Plan of Merger (Agreement) are summarized as follows:

- At the Effective Time, Little Black shall be merged with and into Farmington in accordance with Chapter 611 of the Wisconsin Statutes and upon the terms and conditions set forth in the Agreement; the separate existence of Little Black will cease and Farmington will continue as the surviving corporation.
- The merger shall become effective at 11:59:59 p.m. on December 31, 2018.
- From and after the Effective Time, Farmington's existing articles of incorporation will be the article of incorporation of the surviving company. The name of the surviving company will be Farmington Mutual Insurance Company. The article of incorporation will be amended no later than June 1, 2019, to change the surviving company name.
- The surviving company's bylaws will be amended to be effective at the Effective Time as follows:
  - The number of directors will be between 9 and 16
  - The location of the surviving company's headquarters will be Little Black's current office location in Medford.
  - The surviving company's annual policyholder meeting will be held on the last Saturday in March at 1:00 pm at a location determined by Farmington's board of directors in the years that end with an odd number and in Stetsonville in years that end with an even number.
- From and after the Effective Time, until their successors are duly elected or appointed, the directors and officers of surviving corporation shall be as shown on Exhibit D.
  - No member of Little Black's current board of directors who becomes a member of the board of directors of the surviving company may be removed at any time before the first anniversary of the Effective Date, except for cause
  - The board of directors of the surviving company may not remove the individuals appointed to serve the surviving company as either Chief Executive Officer (Mike Soldan) or Chief Operating Officer/Chief Financial Officer (Tony Wilke) at any time before the first anniversary of the Effective Date, except for cause and with the affirmative vote of three-fourths of the full board
- All current employees of Farmington and Little Black will become employees of the surviving company

- The Board of Directors of each company, by written consent and/or at a meeting duly called and held, unanimously adopted resolutions (i) approving this Agreement and the consummation of the merger upon the terms and subject to the conditions set forth in this Agreement; and (ii) determining that the terms of the Agreement and the merger are fair to, and in the best interests of, each respective company and its members.
- This Agreement may be terminated and the merger may be abandoned:
  - By explicit written consent of the companies
  - By Farmington if any of the conditions set forth in Section 4.2 of the Agreement have not been satisfied as of the date that is 90 days after the date of the Agreement or if satisfaction of any such conditions becomes impossible, and if such breach, failure or misrepresentation has not been cured by Little Black within 20 days after written notice thereof by Farmington;
  - By Little Black if any of the conditions set forth in Section 4.3 of the Agreement have not been satisfied as of the date that is 90 days after the date of the Agreement or if satisfaction of any such conditions becomes impossible, and if such breach, failure or misrepresentation has not been cured by Farmington within 20 days after written notice thereof by Farmington.

**Proposed Directors and Officers of Surviving Corporation**

**Directors**

***Terms ending 2019***

Mark Peissig	LB
Dave Savone	LB
Gary Berger	F
David Neidermire	F
Carol Schiltgen	F

***Terms ending 2020***

Tom Odeen	LB
Mike Kassie	LB
Don Boss	LB
Edward Sontag, Chair	F
Thomas Stack, Vice Chair	F
David Thiel	F

***Terms ending 2021***

Becky Brost	LB
Tom Rasmussen	LB
Craig Gustafson	F
James Klemesrud	F
Richard McCurdy	F

**Officers**

Mike Soldan, Chief Executive Officer  
 Tony Wilke, Chief Operating/Chief Financial Officer  
 Richard McCurdy, Secretary/Treasurer

**Financial Information  
(Before the Merger)**

	Little Black						Farmington					
Assets	Q2 2018	2017	2016	2015	2014	2013	Q2 2018	2017	2016	2015	2014	2013
Bonds	245,759	220,425	1,094,977	846,054	1,174,600	1,199,600	2,744,242	2,868,863	3,298,559	3,362,445	2,824,856	2,549,540
Preferred stock	749,853	765,372	664,817	-	-	-	1,271,829	960,964	180,000	226,238	200,000	200,000
Common stock	3,808,391	3,708,824	3,471,409	2,911,561	2,191,054	1,502,057	3,422,617	3,173,286	3,763,500	2,950,650	3,251,979	2,802,912
Real Estate	180,321	184,881	193,999	203,117	212,235	229,277	30,277	31,482	13,917	15,019	4,276	4,626
Cash	(61,477)	52,291	173,563	315,805	132,396	315,902	496,049	477,396	910,927	1,003,271	918,909	954,468
Total Assets	5,586,926	5,611,091	6,295,757	4,966,784	4,394,360	3,820,777	8,414,651	8,177,649	8,540,177	7,948,506	7,589,700	6,952,775
<b>Liabilities</b>												
Losses	137,802	393,087	170,496	280,596	256,996	271,200	468,037	82,500	222,841	85,161	137,144	46,973
LAE	11,000	11,000	14,000	25,000	20,000	11,000	11,100	1,000	10,800	4,100	13,800	7,900
Total Liabilities	2,634,620	2,878,015	2,708,784	2,599,942	2,521,442	2,343,420	1,243,424	1,257,958	1,493,640	1,511,559	1,522,658	1,480,299
Surplus	2,952,306	2,733,076	3,586,973	2,366,784	1,872,918	1,477,357	7,171,227	6,919,691	7,046,537	6,436,947	6,067,042	5,472,476
Direct Premium Written	1,947,055	4,048,655	4,129,114	4,106,288	4,087,366	3,807,656	539,276	1,606,513	1,555,468	1,609,212	1,601,369	1,640,816
Net Premium Written	1,290,055	2,577,059	2,563,160	2,442,199	2,431,020	2,205,412	255,168	1,102,964	1,081,533	1,114,355	1,103,524	1,142,664
Underwriting Gain/Loss	33,370	(1,719,252)	552,470	137,951	(496,301)	(93,224)	(301,789)	(433,601)	158,919	265,257	16,783	376,360
Investment Gain	38,163	75,911	56,498	24,376	24,251	12,574	58,548	321,747	164,175	130,505	161,948	153,753
Net Income	153,352	(1,470,850)	787,142	344,171	(286,815)	101,750	(133,393)	13,877	223,629	273,826	140,385	379,980
Surplus	2,952,306	2,733,076	3,586,973	2,366,784	1,872,918	1,477,357	7,171,227	6,919,691	7,046,537	6,436,947	6,067,042	5,472,476
WRC Common Stock	3,552,335	3,551,335	3,058,137	2,411,305	2,176,684	1,489,488	2,221,196	2,221,196	1,879,157	1,481,693	1,337,524	915,257
% Surplus	120%	130%	85%	102%	116%	101%	31%	32%	27%	23%	22%	17%

The combined company will have 10.5% of issued and outstanding Class A common stock of Wisconsin Reinsurance Corporation (WRC). To reduce the company's ownership percentage to below 10%, WRC will purchase 2500 shares from Little Black on December 1, 2018 at \$141.27 per share if the planned merger between Little Black and Farmington is approved by the WI OCI.

## The 611.73 – Merger of Mutual - Analysis

(1)(b) Plan of merger and board resolution.

Board of directors of each mutual, by resolution adopted by each board approved a plan of merger. The plan of merger includes all of the following:

1. The names of the mutuals proposing to merge and the name of the surviving mutual into which they propose to merge – **the surviving company will be named Farmington Mutual Ins Co.**
2. The terms and conditions of the proposed merger – **spelled-out in the Agreement and Plan of Merger.**
3. The respective interest and rights of the members of the merging mutuals in the surviving mutual – **no negative impact**
4. Changes in the articles of incorporation of the surviving mutual to be effected by the merger – **The Articles of Incorporation of the combined company will be Farmington's current Articles of Incorporation until they are amended by the Board and policyholders. The Bylaws will be the Amended and Restated Bylaws of Farmington will be the Amended and Restated Bylaws of the combined company.**

(1)(c ) Approval of merger

2. Neither company's articles of incorporation or bylaws give members the rights to vote on the merger. The plan of merger was adopted at a meeting of the board of directors of each mutual unanimously.

(3) Approval by the commissioner – there are no reasons for OCI to disapprove the proposed merger.

### **Conclusion**

I recommend approving the proposed merger. There is no ground for disapproval. I believe that the combined company will be better positioned strategically and operationally due to economy of scale and wider geographical and distribution opportunities.