



State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

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Theodore K. Nickel, Commissioner

Wisconsin.gov

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DATE: March 24, 2017 - **CONFIDENTIAL**

TO: Rebecca Easland

FROM: Richard Hinkel

SUBJECT: Form A – Acquisition of Control of a Domestic Insurer:
Blue Ridge Indemnity Company [**Case No. 17-C41750**]

Form A filing contacts:

Craig S. Hart, Vice President, Regulatory Affairs LOTS Intermediate Co. 10151 Deerwood Park Blvd. Building 100, Suite 330 Jacksonville, Florida 32256 Telephone: (800) 888-2738, Ext. 8701 Fax: (904) 421-5907	Noreen J. Parrett Parrett & O'Connell, LLP Madison, WI 53703 Phone: (608) 251-1967 E-mail: nparrett@parrettoconnell.com
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Form A Exhibits:

Exhibit 1	Form A Cover Letter
Exhibit 2	Form A – Acquisition of Control of Blue Ridge Indemnity Company
Exhibit A:	Executed Stock Purchase Agreement
Exhibit B:	Pre-Acquisition Organizational Chart
Exhibit C:	Post-Acquisition Organizational Chart
Exhibit D:	Directors and Officers
Exhibit E:	Biographical Affidavits
Exhibit F:	Plan of Operations
Exhibit G:	Articles and Bylaws
Exhibit H:	Administrative Services Agreement
Exhibit H-1	Revised Administrative Services Agreement
Exhibit I:	Reinsurance Agreement
Exhibit I-1:	Revised Reinsurance Agreement
Exhibit J:	Tax-Sharing Agreement
Exhibit K:	Statement of Investment Policy
Exhibit L:	Financial Pro Forma
Exhibit M:	Audited Financial Statements
Exhibit N:	Board Resolution for GCW

Exhibit O:	Board Resolution for LOTS
Exhibit P:	Form E
Exhibit 3	OCI Follow up Letter and Emails
Exhibit 4	Applicant's Response
Exhibit 5	Exhibit 5 – Notice of Hearing Case No. 17-C41750

Note: In the Application cover letter dated 1/18/17, the Applicant requested confidential treatment for some of the above exhibits stating:

"We are filing under separate cover the exhibits and information for which LOTS is seeking confidential treatment pursuant to Wis. Stat. §§ 134.90 and 601.465. LOTS is asserting confidentiality for the following information and exhibits as protected from disclosure under provisions of Wisconsin law as containing personally sensitive information or being of a confidential, proprietary and/or trade secret nature, the disclosure of which would cause material harm to the competitive position of LOTS and information that falls within the definition of "trade secret" of Wis. Stat. § 134.90:"

1. Biographical Affidavits for the directors and principal officers of LOTS, Fortegra Financial Corporation, Caroline Holdings LLC, Tiptree Operating Company, LLC, Tiptree Financial Partners, L.P. and Tiptree Inc. and proposed directors and officers of BRIC.
2. Plan of Operations.
3. Statement of Investment Policy.
4. Financial Pro Forma.
5. Form E, Pre-Acquisition Notification Statement of the Potential Competitive Impact of a Proposed Merger or Acquisition.

Parties to the Transaction:

The Acquirer/Applicant:

- **LOTS Intermediate Co. ("LOTS" or "Applicant"):** LOTS was incorporated in 2007 in Delaware and is headquartered in Jacksonville, Florida. It is a wholly owned subsidiary of Fortegra Financial Corporation ("Fortegra"), also domiciled in Delaware with its headquarters in Jacksonville, Florida. Fortegra indirectly owns and LOTS directly owns multiple insurance companies, including Life of the South Insurance Company, Insurance Company of the South, Southern Financial Life Insurance Company, Lyndon Southern Insurance Company, Response Indemnity Company of California, and Bankers Life of Louisiana. The insurance companies directly or indirectly owned by LOTS provide Credit Life, Credit Disability, Involuntary Unemployment insurance, Credit Property, including Household Contents, Vendor Single Interest, Blanket Vendor Single Interest, Collateral Protection Insurance, Mortgage Protection Insurance, Limited Lienholder, Lender Comprehensive, Non-filing Insurance, auto physical damage insurance, Non-Standard Auto insurance, Accident Medical Expense plan, Surety, Contractual Liability Insurance, Home Protection/Warranty, Vehicle Service Contracts, Insurer Obligor contracts, Inland Marine, and Accidental Death and Dismemberment insurance. LOTS also directly or indirectly owns multiple warranty companies that provide warranty protection for automobiles, consumer electronics, mobile device and other products. Fortegra is indirectly owned by Tiptree Inc., the ultimate controlling person. As of January 1, 2016, Tiptree Financial Partners, L.P. is owned

approximately 81% by Tiptree Inc. and approximately 19% by various limited partners, none of whom owns 10% or more of Tiptree Financial Partners, L.P.

The Domestic Insurer to be Acquired:

- **Blue Ridge Indemnity Company (“BRIC” or the “Company”):** Located in Sun Prairie, Wisconsin, BRIC is a Wisconsin-domiciled stock property and casualty insurer that was incorporated in 1952. BRIC is currently licensed in six states, and is a wholly-owned subsidiary of General Casualty Company of Wisconsin (“General Casualty”). The Company is a member of the QBE insurance group, whose ultimate parent company is QBE Insurance Group Limited. BRIC has obligations under expired policies issued and/or assumed by it and under policies currently in force as of the closing date of the Transaction. It also has obligations under policies that it is required by law to renew after the effective date of the Transaction. All of these policies, policy obligations and liabilities (the “Transferred Policies”) are transferred to GCW under a Loss Portfolio Transfer and Quota Share Reinsurance Agreement (“Loss Portfolio Agreement”) (included with this Statement as Exhibit B to the Stock Purchase Agreement). To support GCW’s obligations under the Loss Portfolio Agreement, GCW and BRIC will enter into an Administrative Services Agreement (the “Services Agreement”) (included with this Statement as Exhibit A to the Stock Purchase Agreement) under which GCW will assume all administration of the Transferred Policies and bear all of the costs and expenses of such administration.

As of December 31, 2016, the Company wrote \$2.5M of direct premiums all of which were in New York. Effective January 1, 2016, the Company participates in the QBE North America Pooling Agreement, pursuant to which, BRIC cedes 100% of direct premiums to the pool, and assumes 0% back.

The Proposed Transaction:

The Applicant intends to acquire control of BRIC by acquiring 100% of the issued and outstanding stock of BRIC pursuant to a Stock Purchase Agreement (the “Agreement”) dated December 16, 2016, by and between General Casualty and the Applicant. **[See Exhibit A]**

As a result of the acquisition of all issued and outstanding stock of BRIC (the “Acquisition”), the Applicant will acquire the power to exercise all voting rights in the governance of BRIC. The key terms and conditions governing the Acquisition (as stated in the Agreement), are set-forth below:

- **Common Stock to be Acquired:** As of the date of the Agreement, there were 500,000 shares, par value \$5.00 per share of common stock of Blue Ridge Indemnity Company which constitutes all of the issued and outstanding shares of BRIC’s capital stock. [At the closing, the Applicant will acquire all of BRIC’s common stock, and will thereby acquire control of BRIC.]
- **Quota Share Reinsurance Agreement:** Prior to the closing of the Acquisition, BRIC and General Casualty will enter into a quota share reinsurance agreement (the “Reinsurance Agreement”) whereby General Casualty will: (i) 100% reinsure all of the liabilities of BRIC relating to policies issued by BRIC prior to the closing (including any renewals of the pre-closing policies which BRIC is obligated by contract or applicable law to issue after the closing of the Acquisition), and (ii) administer, in all respects at its cost, the pre- and post-closing policies.
- **Consideration:** As consideration for the common stock of BRIC, the Applicant will pay to General Casualty an aggregate cash purchase price of [REDACTED] plus the Statutory Capital of BRIC as of prior to the closing (the “Purchase Price”, as set-forth in the Agreement).

It is anticipated that the Acquisition will occur on April 1, 2017 (the date on which the last of the closing conditions are expected to be satisfied or waived, or on such other date as the Applicant and General

Casualty may mutually agree in writing, subject to the satisfaction or waiver of all conditions precedent as set-forth in the Agreement (including the approval of this Form A by OCI).

Form A Filing - Summary

Item 1: Method of Control

The Applicant intends to acquire control of BRIC in accordance with the terms and conditions set-forth in the Stock Purchase Agreement (the "Agreement") dated December 16, 2016, between the Applicant and General Casualty. [See above for a discussion of the Agreement's key terms and conditions.]

Item 2: Identity and Background of the Applicant

The business address of the Applicant is:

LOTS Intermediate Co. (proposed direct owner)
10151 Deerwood Park Blvd.
Building 100, Suite 330
Jacksonville, Florida 32256

Fortegra Financial Corporation (proposed indirect owner)
10151 Deerwood Park Blvd.
Building 100, Suite 330
Jacksonville, Florida 32256

Caroline Holdings LLC (proposed indirect owner)
780 Third A venue
21st Floor
New York, NY 10017

Tiptree Operating Company, LLC (proposed indirect owner)
780 Third A venue
21st Floor
New York, NY 10017

Tiptree Financial Partners, L.P. (proposed indirect owner)
780 Third A venue
21st Floor
New York, NY 10017

Tiptree Inc. (ultimate controlling person)
780 Third A venue
21st Floor
New York, NY 10017

Included as **Exhibit B** are the current organizational charts for Tiptree Inc. and Fortegra Financial Corporation showing the corporate structure of Tiptree Inc. pre-acquisition of BRIC. Also included as **Exhibit C** is the post-Transaction organizational chart of Fortegra showing the organizational structure after acquisition of BRIC.

According to the Form A, there are currently no involuntary court proceedings involving a reorganization or liquidation pending against any of the entities shown in Exhibit B.

Item 3: Identity and Background of Individuals Associated with the Applicants

Directors and Executive Officers: The Applicant's directors and executive officers are:

a. Directors:

Richard S. Kahlbaugh, Chairman of the Board
Michael Vrban
Joseph R. McCaw

b. Officers:

Richard S. Kahlbaugh, President & Chief Executive Officer
Michael Vrban, Treasurer
Mark Rattner, Executive Vice President, Chief Underwriter & Product Management
Joseph R. McCaw, Executive Vice President

Biographical Affidavits were reviewed for each of the officers and directors listed. The following exceptional responses were noted:

Digital Leash, LLC (DBA ProtectCell)-(Washington) (Kahlbaugh, McCaw)

The State of Washington ("WA") issued an Order to Cease and Desist, Order No. 14-204 ("Cease and Desist Order") to cease and desist, in the State of W A, from engaging in or transacting the unauthorized business of insurance or acting as an unregistered service contract provider. ProtectCell and the Office of the Insurance Commissioner ("OIC") reached a settlement in which the OIC has rescinded the Cease and Desist Order, which resolved the prior Proposed Consent Order No. 13-0331. ProtectCell was assessed a fine, of which one-half was suspended, provided that ProtectCell does not violate any of WA's laws regarding cell phone service contracts for a period of two years. ProtectCell paid an assessment representing the amount of premium tax that would be owed on certain contracts previously sold by ProtectCell. The OIC agrees that it will not take any further action against ProtectCell with regard to any of the allegations originally set forth in the Cease and Desist Order.

Digital Leash, LLC (DBA ProtectCell) - (Florida) (Kahlbaugh, McCaw)

The State of Florida conducted an inquiry into the sales, marketing, and licensing arrangements that Digital Leash had with its wireless dealers during 2013. During the process, Digital Leash agreed to obtain a license and make sure any dealers selling its products also obtained a license. Digital Leash applied for a resident managing general agent license. In order to obtain the license and close the Department's inquiry, Digital Leash agreed to a Settlement Stipulation for Consent Order. As part of the settlement, the Department granted approval of the license application upon Digital Leash's agreement to pay administrative costs of the inquiry of \$2,500. The Settlement was signed on November 15, 2013, and the Consent Order approving the Settlement was entered into on November 19, 2013, at Case No. 143018-13-AG.

LOTSolutions, Inc. – (Florida) (Kahlbaugh, McCaw)

LOTSolutions provided Administrative Services for an affiliate, Lyndon Southern Insurance Company. During the investigation by the Florida Department of Financial Services ("DFS") of Global Warranty Group, Inc. ("GWG"), DFS determined that a Senior Officer of GWG had a prior conviction and GWG did not hold an adjuster license to process claims on behalf of Lyndon Southern. GWG falsely represented to Lyndon Southern that it held the appropriate adjuster license and the prior conviction of one of GWG's officer's was never disclosed to LOTSolutions or Lyndon Southern. LOTSolutions entered into a Settlement Stipulation for Consent Order on February 4, 2013, and Consent Order on February 20, 2012, paying an administrative penalty of \$17,500.

Southern Financial Life Insurance Company –Kentucky (Kahlbaugh, McCaw)

The State of Kentucky conducted a market conduct examination of Southern Financial for the period of July 1, 2004, through March 31, 2006. The Southern Financial market is primarily credit insurance related products. The examination revealed violations of: (a) accepting insurance business from business entities who were not at the time of acceptance appointed by the Company, (b) paying commissions, directly or indirectly, to a business entity for agent services, when the business entity did not possess a valid license for that line of insurance when the services were performed, (c) failure to notify the Kentucky Office of Insurance of the termination of insurance business relationships with agents or business entities within 30 days following the effective date of termination, and (d) charging rates for insurance products that exceeded the maximum rates permitted.

Southern Financial agreed to pay a civil penalty of \$55,000, on April 16, 2007, allocated proportionally as follows: (a) \$25,000 accepting insurance business from business entities who were not at the time of acceptance appointed by the Company, (b) \$25,000 for paying commissions, directly or indirectly, to a business entity for agent services, when the business entity did not possess a valid license for that line of insurance when the service were performed, and (c) \$5,000 for failure to notify the Kentucky Office of Insurance of the termination of insurance business relationships with agents or business entities within 30 days following the effective date of termination.

Life of the South Insurance Company-Washington (Kahlbaugh, McCaw)

In February 2015, one of the Company's clients entered into a final order with the WA Office of the Insurance Commissioner, which resulted in Proposed Consent Order levying a fine, Consent Order No.: 15-0036. The Company has consented to pay the requisite fine.

Life of the South Insurance Company-Maryland (2014) (Kahlbaugh, McCaw)

The State issued an Order dated December 23, 2014, taking disciplinary action against the Company for failing to timely implement rate deviations for the period of October 1, 2012, through February 28, 2013. The Company complied with the Order on March 5, 2015, and paid the requisite penalty.

Life of the South Insurance Company-Maryland (2012) (Kahlbaugh, McCaw)

In Maryland, credit insurance companies are required to file Case Deviation reports illustrating claims experience that is used to set upcoming rates. The Company submitted its report as required and was waiting for the customary letter from the Insurance Department confirming the experience, new rate structure, and when the new rate was to begin. Having not received a letter, the Company actuary requested a status. We learned from the Insurance Department that an e-mail was sent and they did not issue a letter. The Company conducted a thorough search of its e-mail archive to which our archives showed no record of the e-mail. All incoming and outgoing e-mails of the company are automatically archived without action by the company associate. The Insurance Department position was the consumer was to have been charged the new rate irrespective of the communication problems. The Company consented to pay an administrative penalty of \$12,500 and refund any overcharges. The Company adjusted premiums for affected insured's and provided refunds.

LOTSolutions, Inc. - South Dakota (Kahlbaugh, McCaw)

On September 1, 2011, the South Dakota Divisions of Insurance issued an administrative fine to LOTSolutions for failure to timely file a report with the Commissioner as a result of a

miscommunication between LOTSolutions and its outside vendor. LOTSolutions consented to the fine on September 6, 2011, and it is now complaint with its reporting obligations.

To mitigate compliance issues the group consolidated its compliance efforts into one department, being the Compliance & Governmental Affairs Department. They staffed this department with experienced industry executives and consolidated compliance oversight into one group and developed compliance processes to avoid similar reoccurrences.

Item 4: Nature, Source and Amount of Consideration

The Applicant will purchase BRIC in exchange for consideration which shall be the sum of [REDACTED] plus the statutory capital of BRIC as of the closing date. The total purchase price will be paid by LOTS to GCW in cash upon closing the Transaction.

All amounts were arrived at through arms-length negotiations between the parties.

Item 5: Acquiring Party's Future Plans for Insurer

Below is a summary of the Applicant's Plan of operations [Exhibit F]:

Blue Ridge will market credit related products through licensed agents and issued to financial institutions, small community banks, consumer finance companies and dealer franchises ("producers"). Some of these products will be lender placed to protect the lender's security interest. Blue Ridge will offer Private Passenger Auto Insurance Program and Commercial lines through Managing General Agents/Managing General Underwriters, or insurance agencies.

A list of the types of credit -related and other insurance products to be written by Blue Ridge Indemnity Company are as follows:

Collateral Protection Insurance
Vendors Single Interest (VSI)
Blanket Vendor's Single Interest (BVSI)
Mortgage Protection Insurance
Credit Property/Household Contents
Non-filing insurance (Surety)
Involuntary Unemployment insurance
Limited Lienholder
Lender Comprehensive
Accidental Death & Dismemberment
Disability
Contractual Liability Insurance
Private Passenger Auto Liability & Physical Damage Insurance
Homeowners Multi Peril
Farmowners Multi Peril
Home Warranty/Protection
Surety

Credit Related Products

LOTSolutions will perform the underwriting services on the behalf of Blue Ridge through an administrative service agreement which will have a reimbursement methodology based on cost allocation. Products offered are generally credit-related and individual risks are not underwritten, the lender or financial institution is underwritten instead. Insurance products are then made available to customers of the financial institution subject to a number of questions. Business will be underwritten to produce a combined ratio (expenses and losses) of approximately 85%. Monthly profitability reviews of the portfolio are performed. Corrective actions including commission reduction, rate change filings or account termination are instituted as indicated as a result of the review.

LOTSolutions, Inc. presently adjudicates claims for the future affiliates of Blue Ridge. The staff investigates claims, gathers the necessary documentation, including repair estimates to adjudicate and pay claims.

Non-credit related lines will be administered by the Program and/or Claims Administrator for Blue Ridge through a services agreement

BRIC will have a reinsurance agreement with an offshore affiliate, LOTS Reassurance LTD as well as cessions to nonaffiliated reinsurers. BRIC will ultimately retain 10% of the risk. The company will stipulate to an order similar to those issued to other Wisconsin insurers that cede to an offshore affiliate.

LOTS has no current plans to have BRIC declare an extraordinary dividend, to liquidate BRIC, sell its assets, or merge BRIC into another person. BRIC currently does a limited insurance business, all of which will be transferred to or reinsured by GCW under the Loss Portfolio Agreement (Exhibit B to the Stock Purchase Agreement) and that business will also be administered by GCW under the Services Agreement (Exhibit A to the Stock Purchase Agreement).

Item 6: Voting Securities to be Acquired

LOTS will purchase from GCW 500,000 shares, par value \$5.00 per share, of BRIC common stock, which is all of BRIC's issued and outstanding capital stock. At closing of the Transaction, LOTS will pay to GCW ██████████ as compensation for the 500,000 shares of BRIC common stock plus an amount equal to the statutory capital and surplus of BRIC, as of the date of closing as provided in Article II of the Stock Purchase Agreement (included as **Exhibit A**).

Item 7: Ownership of Voting Securities

Neither LOTS nor any of its affiliates nor any person identified in Item 3 of this Statement have any right to acquire beneficial ownership in BRIC other than as described in the Introduction and in Item 6 of this Statement.

Item 8: Contracts with Respect to Voting Securities of the Insurer

Neither LOTS nor any of its affiliates nor any person identified in Item 3 of this Statement have any contracts, arrangements or understandings with respect to any voting security of BRIC other than as described in the Introduction and in Item 6 of this Statement.

Item 9: Recent Purchases of Voting Shares

Neither LOTS nor any of its affiliates nor any person identified in Item 3 of this Statement has purchased any voting securities of the Insurers.

Item 10: Recent Recommendations to Purchase

Neither LOTS nor any of its affiliates nor any person identified under Item 3 of this Statement, nor anyone else based upon interviews or at the suggestion of LOTS, its affiliates or any person identified under Item 3 of this Statement, have made any recommendations to purchase any voting security of BRIC during the twelve calendar months preceding the filing of this Statement.

Item 11: Agreements with Broker-Dealers

Fortegra, LOTS immediate parent company, contracted with broker-dealer Propel Advisory Group, Inc. to locate and inform Fortegra of available entities suitable to Fortegra for purchase and to facilitate the discussions between buyer and seller.

Item 12: Financial Statements (Applicant) and Pro Formas (BRIC)

Applicant's Financial Statements:

Audited Financial Statements as follows:

- Form 10-K for Fortegra Financial Corporation for years 2011 through 2013 (was a publicly traded company until 2014)
- Annual Reports for Fortegra Financial Corporation for years 2014 and 2015 (subsidiary of Tiptree Inc.)

Selected highlights from those financial statements are summarized below:

Applicant's 5-Year Financial Trend :

	2011	2012	2013	2014	2015
Revenues:					
Service and administrative fees	\$94,464	\$90,550	\$172,427	\$164,590	\$106,526
Ceding commissions	29,495	34,825	32,824	43,421	43,217
Net investment income	3,368	3,067	3,050	3,183	3,415
Net realized investment gains	4,193	3	2,043	22	(58)
Net earned premium	115,503	127,625	136,787	139,711	166,265
Other income	170	269	736	3,702	8,340
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Total revenues	247,193	256,339	347,867	354,630	327,705
Expenses:					
Net losses and loss adjustment expenses	37,949	40,219	41,567	41,356	56,568
Member benefit claims	4,409	4,642	46,019	39,465	29,744
Commissions	126,918	128,741	154,606	159,048	105,732
Other expenses	60,408	63,059	88,208	95,815	105,882
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Total expenses	229,684	236,661	330,400	335,684	297,926
Income from continuing operations before income taxes					
	17,509	19,678	17,467	18,946	29,779
Income taxes - continuing operations	5,947	6,716	5,660	5,683	10,863
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Income from continuing operations before non-controlling interests	11,562	12,962	11,807	13,263	18,916
Discontinued operations- net of tax	1,777	2,275	12,390	(42)	
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Net income before non-controlling interests	13,339	15,237	24,197	13,221	18,916
Less: net income (loss) attributable to non-controlling interests	(170)	72	1,482	1,922	79
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Net income attributable to Fortegra Financial Corporation	\$13,509	\$15,165	\$22,715	\$11,299	\$18,837
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Item 13: Agreement Requirements for Enterprise Risk Management

Applicant agrees to provide, to the best of its knowledge and belief, the information required by Form F within fifteen (15) days after the end of the month in which the acquisition of control occurs.

Wisconsin Specific Requirements

The following checklist addresses the requirements of s. 611.72 (3), Wis. Stat. (Grounds for Disapproval):

The Plan would not violate the law, or be contrary to the interests of the insureds of any participating domestic corporation or of the Wisconsin insureds of any participating nondomestic corporation,

And that:

- a) After the change of control, the domestic stock insurance corporation, or any domestic stock insurance corporation controlled by the insurance holding corporation, would be able to satisfy the requirements for the issuance of a license to write the line or lines of insurance for which it is presently licensed.

Did the Filing Adequately Address this Concern? Yes

As indicated in Item 5, the Applicant does not plan to cause BRIC to declare an extraordinary dividend, to liquidate BRIC, to sell the assets of BRIC to or merge BRIC with any person or persons or to make any other material change in its corporate structure. The proposed business operations, management, and capital level will allow BRIC to satisfy the requirements for the issuance of a license to write the line or lines of insurance for which it is proposing in its plan of operations.

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

Did the Filing Adequately Address this Concern? Yes

Comments: The Applicant's analysis states for a "highly concentrated market" under Wis. Adm. Code Ins § 40.025, the four largest insurers in Wisconsin must write 75% or more of the market. Included with the Form E Statement as Exhibit 1 is a table showing the Wisconsin Market Share data for the years 2011 through 2015 (the latest year available) from the Wisconsin Insurance Report for the lines Credit Life, Credit Accident & Health, and Credit, which are the primary lines that LOTS proposes BRIC will write in Wisconsin and other states where licensed. As indicated on Exhibit 1, the Wisconsin market in those lines of insurance is not highly concentrated. BRIC is not among the top 20 writers in any of these lines and none of the Fortegra insurance companies are licensed in Wisconsin.

Based on the above there is no evidence that the acquisition of BRIC by LOTS substantially lessens competition in any line of insurance in Wisconsin nor would such acquisition tend to create a monopoly. The acquisition of BRIC directly by LOTS and indirectly by Fortegra would therefore not negatively affect the market; rather, it would act to add another insurer to the credit insurance marketplace.

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

Did the Filing Adequately Address this Concern? Yes

Comments: There are no issues or concerns that would suggest that the financial condition of the Applicant and its affiliates is likely to jeopardize the financial stability of BRIC or prejudice the interests of its Wisconsin policyholders.

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

Did the Filing Adequately Address this Concern? Yes

As indicated in Item 5, the Applicant has no current plans to have BRIC declare an extraordinary dividend, to liquidate BRIC, sell its assets, or merge BRIC into another person.

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

Did the Filing Adequately Address this Concern?

The biographical information does not raise any concerns regarding the competence and integrity of the officers and directors of the Applicant.

Application Follow-up

The Applicant, per emails dated March 13, 15, and 16, 2017 (including Exhibits), responded to the issues identified in OCI's March 8, 2017 application follow-up letter and follow up emails dated March 9 and 10, 2017 as follows:

1. There have been several instances of compliance issues with other states. What has the group done to mitigate the risk of these types of incidents happening in the future?

Applicant's Response: To mitigate compliance issues the group consolidated its compliance efforts into one department, being the Compliance & Governmental Affairs Department. They staffed this department with experienced industry executives and consolidated compliance oversight into one group and developed compliance processes to avoid similar reoccurrences.

2. The plan of operations appears to be canned. An example of this is that Blue Ridge plans to offer the surety program on a national basis when it is only licensed in six states. In addition the plan includes a potpourri of business lines which the company plans to offer. Working under the assumption that BRIC will offer products similar to those offered by its soon to be affiliates please provide a table on a group wide basis of the amount of direct premium written in each of the proposed lines. Lines that have a de minimus amount written (less than 5% of total writings) need not be included.

Applicant's Response: The applicant provided information on the lines written by affiliated companies.

3. Please provide the assumptions underlying the financial pro forma submitted.

Applicant's Response: Assumptions are based on current experience of affiliated companies.

4. Please provide balance sheet pro forma financial statements that include RBC and compulsory & security surplus results.

Applicant's Response: Projections were provided.

5. Section 4 of the Administrative Services Agreement is not acceptable. LOTS Solutions can collect premiums and other cash receipts but the funds need to be transferred to bank accounts owned by BRIC within 15 business days. They can be held in an account that LOTS Solutions has check writing authority or wire transfer monies to LOTS Solutions as needed.

Applicant's Response: The agreement was amended to provide for the prompt transfer of monies to BRIC accounts.

6. The reinsurance agreement needs a correction. Article II, Item 26 reads: "Quota Share" is defined as the Reinsurer's proportion of the liability on the insurance risks of the Policies. For purposes of this Agreement, the Quota Share shall be set separately for each Cedant and equal to as follows: Lyndon Southern Insurance Company 95%, Insurance Company of the South 90% and Response Indemnity of California 90%. This need to be changed to the Blue Ridge Indemnity quota share percentage. There is a minor typo in item 37.

Applicant's Response: Attached is the revised Reinsurance Agreement. Article II, Item 26, now sets BRIC's quota share at 90%. The typo in Section II, Item 37 has been corrected.

7. After reviewing the statements of other insurers owned by Fortegra it appears the affiliated reinsurance is applied net of the nonaffiliated reinsurance. Please confirm.

Applicant's Response: The company confirms that affiliate reinsurance is applied net of non-affiliated reinsurance.

8. The plan of operations states BRIC will retain 10% of the risk while the pro forma statement reflect a 20% retention. Please clarify the retention of BRIC.

Applicant's Response: The retention percentage depends on the business reinsured. BRIC will retain 10% of the risk for credit programs whereas BRIC will retain 20% of non-credit programs. The pro forma was prepared conservatively reflecting a 20% retention.

Conclusion

It is recommended that the proposed acquisition of control of Blue Ridge Company by LOTS Intermediate Co. be approved on the basis that there are no statutory grounds for denial pursuant to s. 611.72 (3), Wis. Stat.