

*In the Matter of the Restructuring of
American Family Mutual Insurance
Company to a Mutual Holding Company
and a Stock Insurance Company
Case No. 16-C41471*

**TESTIMONY OF DANIEL J. KELLY
CHIEF FINANCIAL OFFICER AND TREASURER
AMERICAN FAMILY MUTUAL INSURANCE COMPANY**

**NOVEMBER 16, 2016
MADISON, WISCONSIN**

Q: What is your name?

A: Daniel J. Kelly.

Q: What positions do you currently hold with American Family Mutual Insurance Company? For the sake of brevity, why don't we refer to the Company as "AFMIC" or the "Company" during your testimony.

A: I am the Chief Financial Officer and Treasurer of AFMIC.

Q: How long have you held those positions?

A: I have been Chief Financial Officer and Treasurer since 2011.

Q: How long have you worked for AFMIC, and what other positions have you held with the Company?

A: I started working for AFMIC in 1987, and have previously been a Financial Analyst, from 1987 to 1993, the Accounting Manager from 1993 to 2000, the Accounting Director from 2000 to 2003, the Life Product Design Director from 2003 to 2007, the Financial Analysis Director in 2007, and the Human Resources Vice President from 2007 to 2011.

Q: Were you involved in considering the proposed conversion of AFMIC into a mutual holding company structure?

A: Yes, I have been involved in discussions around the conversion since 2012, and have been involved in the preparation of the current Mutual Holding Company Plan.

Q: Mr. Kelly, I'd like to discuss the financial impact of the proposed conversion on AFMIC. Do you have the personal knowledge to do that?

A: Yes, I do.

Q: Great. Please describe AFMIC's current financial results.

A: As of December 31, 2015, AFMIC had a statutory surplus of approximately \$6.5 billion, and approximately \$21.5 billion in total assets. The American Family group of companies is one of the 20 largest property casualty insurance groups in the US, and ranked 332nd on the most recent Fortune 500 list of the largest U.S. companies.

Q: Is AFMIC rated by any rating agencies?

A: Yes. AFMIC and the American Family group of companies are rated by A.M. Best, the largest rating agency in the insurance industry. AFMIC and the American Family group of companies are rated "A" (excellent) by A.M. Best, with a stable outlook. AFMIC is also rated by Fitch as "A+".

Q: In his testimony, David Holman described AFMIC's 17 insurance company subsidiaries. Does AFMIC have financial arrangements with these subsidiaries other than through owning stock in them?

A: Yes; AFMIC provides management and other services to its property and casualty subsidiaries, and also reinsures large portions of the business written by various of its property and casualty insurance company subsidiaries.

Q: Please describe the reinsurance arrangements between AFMIC and its insurance company subsidiaries.

A: AFMIC provides reinsurance for many of its subsidiary insurers. AFMIC reinsures 100% of the business of American Standard Insurance Company of Wisconsin, American Family Insurance Company, American Standard Insurance Company of Ohio, and Midvale Indemnity Company. AFMIC also reinsures 100% of the business of each of the insurers in the Homesite Group (except that only 80% of the business of Homesite Insurance Company of New York is reinsured) through its reinsurance of Homesite Insurance Company of the Midwest, which reinsures each of the other Homesite Group insurers.

Q: In his testimony, David Holman identified enhanced access to capital as an advantage of the proposed conversion. Are you knowledgeable about AFMIC's capital structure and able to testify to the same today?

A: Yes, I am.

Q: Does AFMIC have any current need for additional capital?

A: No, it does not. AFMIC is strongly capitalized today and has the financial strength to meet its present and future obligations to its policyholders, employees, and creditors. This is evidenced by AFMIC's statutory surplus of approximately \$6.5 billion, its "A" (Excellent) A.M. Best rating, with a stable outlook, and its "A+" rating by Fitch. The Mutual Holding Company Plan does not provide for any sale of stock (whether voting or non-voting) or the issuance of any debt securities to any outside investors, and the Company has no plans for any such securities offering in the future.

Q: Does AFMIC's management expect that the proposed conversion will have any effect on the Company's financial strength?

A: The proposed conversion is not expected to negatively impact the Company's financial strength, as shown in the pro forma financials that AFMIC has provided to the Wisconsin Office of the Commissioner of Insurance. On the contrary, AFMIC and its Board of Directors believe that the proposed conversion will help the company grow profitably and further strengthen its financial condition in the future. Additionally, if unexpected future events placed significant stress on AFMIC's financial strength, the Company would be better positioned to raise additional capital after the proposed Conversion. Accordingly, I submit that the proposed conversion has a positive effect on the Company's financial strength.

Q: I'd like to discuss the statutory requirement that the proposed conversion be approved by the Wisconsin Commissioner of Insurance before it can go into effect. Are you aware of that standard?

A: Yes, I am aware.

Q: And are you familiar with the findings that the Wisconsin Commissioner of Insurance must make under Chapter 644 of the Wisconsin Statutes as a basis for approving the Mutual Holding Company Plan?

A: Yes.

Q: One of the statutory requirements is that the Mutual Holding Company Plan be fair and equitable to AFMIC's policyholders. From a financial perspective, do you think the proposed conversion is fair and equitable to the Company's policyholders?

A: Yes, I do. First, as David Holman described, the proposed conversion will have absolutely no impact on the insurance coverage AFMIC provides to its policyholders, other than the fact that such coverage will be provided by a stock insurer rather than a mutual insurer. This means that the insurance and other benefits provided to, and the premiums charged to, AFMIC's policyholders will not be changed as a result of the conversion. Second, as I discussed previously, the proposed conversion will strengthen AFMIC's financial position. This is not only fair and equitable to AFMIC's policyholders, it is to their distinct advantage.

Q: Another of the statutory requirements is that the proposed conversion not be contrary to the interests of AFMIC's policyholders or of the general public. From a financial perspective, do you think the proposed conversion is contrary to the interests of AFMIC's policyholders or the general public?

A: No, I do not. The proposed conversion will have no negative impact on the financial strength of AFMIC, and the Company does not anticipate that either its A.M. Best or its Fitch rating will change or be placed under review with negative implications. In fact, as I stated earlier, the proposed conversion is good for the strength and security of AFMIC, and is accordingly in the best interests of the Company's policyholders and the general public.