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 DAVID C. HOLMAN

CHIEF STRATEGY OFFICER AND SECRETARY

AMERICAN FAMILY MUTUAL INSURANCE COMPANY

NOVEMBER 16, 2016

MADISON, WISCONSIN

I. Introductory Testimony

Q: What is your name?

A: David C. Holman.

Q: For the sake of brevity, let's refer to American Family Mutual Insurance Company as “AFMIC” or the “Company” during your testimony. What positions do you currently hold with AFMIC?

A: I am the Secretary and Chief Strategy Officer of AFMIC.

Q: How long have you held those positions?

A: I have been Secretary since April 2011, and Chief Strategy Officer since January 2014.

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

A: I started working for AFMIC in October 1987 as an Associate Claim Attorney, and thereafter left the Company in May 1988. I came back to work for AFMIC and held the positions of Senior Claim Attorney from February 1997 to March 2000, Corporate Legal Assistant General Counsel from March 2000 to March 2010, and Corporate Legal Vice President from March 2010 to November 2010. Thereafter, I was Chief Legal Officer from November 2010 to April 2014 (during part of which time I also served as Secretary).

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

A: Yes. I was involved from the beginning of discussions in 2012, and have been deeply and directly involved in the preparation of the current Mutual Holding Company Plan, which I'm going to call the “Plan”. I have participated in a management support role in all of AFMIC's Board of Directors meetings regarding the Plan, and have been involved in extensive discussions with other members of AFMIC's senior management, legal team, and others within the Company, as well as with AFMIC's outside counsel.

Q: Mr. Holman, I'd like to discuss the proposed conversion with you from several perspectives, in the following order:

First, I will ask you to provide some background and history about AFMIC.

Second, I will ask you to describe the changing property casualty insurance market and the challenges it poses for AFMIC, which led to AFMIC's board considering and choosing to pursue the proposed conversion.

Third, I will ask you to explain how the proposed conversion helps AFMIC respond to the challenges facing it in the future.

Fourth, I will ask you to discuss the alternatives to the proposed conversion that were considered by AFMIC's Board of Directors.

Fifth, I will ask you to describe the mechanics of the proposed conversion.

Sixth, I will ask you to describe the steps AFMIC took to comply with legal and corporate requirements applicable to the proposed conversion.

Seventh, and finally, I will ask you to explain how the proposed conversion satisfies the statutory criteria for approval of the proposed conversion by the Wisconsin Commissioner of Insurance.

Do you believe you have sufficient personal knowledge of the foregoing matters to testify to the same during this hearing?

A: Yes, I do.

II. <u>Background of AFMIC</u>

Q: Let's begin with some background information about AFMIC. What is the current corporate structure and location of AFMIC?

A: AFMIC is a mutual property and casualty insurance company domiciled in Wisconsin. Its principal offices are located in Madison, Wisconsin.

Q: Tell me about the history of AFMIC.

A: AFMIC was organized under Wisconsin law in 1927 as Farmers Mutual Automobile Insurance Company, and has always been a mutual insurer domiciled in Wisconsin. It adopted its current name in 1963, and in 1970 merged with a former companion carrier, American Family General Mutual Insurance Company.

Q: What kinds of property and casualty insurance does AFMIC write today?

A: AFMIC offers a wide range of insurance coverage, including personal automobile, homeowners, farmowners, inland marine, commercial multiple peril, personal and commercial umbrella, boat owners, fire and allied lines, among others.

Q: Where is AFMIC authorized to transact insurance business?

A: AFMIC is licensed in 27 states: Arizona, Colorado, Georgia, Idaho, Illinois, Indiana, Iowa, Kansas, Minnesota, Missouri, Montana, Nebraska, Nevada, New Mexico, North Carolina, North Dakota, Ohio, Oregon, South Carolina, South Dakota, Tennessee, Texas, Utah, Virginia, Washington, Wisconsin, and Wyoming. AFMIC is also an accredited reinsurer in Florida.

Q: How does AFMIC distribute its insurance products?

A: AFMIC distributes its products primarily through a network of over 2,800 agents, who sell primarily American Family-branded products.

Q: Does AFMIC have subsidiary companies?

A: Yes, AFMIC has 17 insurance company subsidiaries and a number of other subsidiaries, including insurance agencies, holding companies, and statutory trusts. Rather than reciting their names and trying to describe AFMIC's group organizational structure, I would refer the hearing officer and others to the organizational chart provided with our Policyholder Information Statement.

Q: How did AFMIC come to have its 17 insurance company subsidiaries?

A: Over time, AFMIC has formed a number of subsidiary insurance companies and has also acquired a number of already-existing insurance companies.

Q: Tell us more about the companies that AFMIC has formed.

A: AFMIC started forming subsidiary insurance companies in 1957, when it formed American Family Life Insurance Company in order to offer its customers life insurance products. Shortly thereafter, in 1961, AFMIC formed American Standard Insurance Company of Wisconsin, and in 1995, formed American Family Insurance Company and American Standard Insurance Company of Ohio. Each of these insurers has always been a wholly-owned subsidiary of AFMIC.

Q: Tell us more about the companies AFMIC has acquired.

A: As I noted before, AFMIC merged with its companion carrier, American Family General Mutual Insurance Company, in 1970. Since then, AFMIC has, through its wholly-owned subsidiary holding company, AmFam, Inc., acquired Midvale Insurance Company, the Permanent General companies, and the Homesite Group of insurers. Midvale Insurance Company was a shell company—known as Lumbermens Casualty Insurance Company—when AFMIC acquired it. The Permanent General companies and Homesite Group were going concerns which AFMIC acquired in their entirety. These acquisitions have expanded the geographic scope, distribution channels, and breadth of insurance product offerings of the American Family group of companies.

Q: What types of business do AFMIC's subsidiaries transact?

A: Different subsidiaries transact different types of business. American Family Insurance Company and American Standard Insurance Company of Ohio underwrite the newer versions of the American Family-branded property casualty product lines traditionally sold by AFMIC. These products are sold through the same distribution channel used by AFMIC, American Family exclusive agents. American Standard Insurance Company of Wisconsin has recently been repurposed to primarily write reinsurance for other property casualty insurers outside the American Family group of companies. The Permanent General companies write non-standard personal automobile insurance under "The General" brand. The Homesite Group insurers sell "white label" homeowners and renters insurance through direct sales channels. American Family Life Insurance Company sells whole, term, and universal life insurance products. Midvale Indemnity Company sells "main street" commercial property and casualty insurance primarily through direct sales channels, and Midvale Life Insurance Company of New York is a newly-formed life insurance company not yet licensed to engage in the business of insurance. Other subsidiaries of AFMIC are licensed insurance agencies, and sell products underwritten by the American Family group of companies and other insurers. AFMIC also has holding company subsidiaries that are engaged solely in the business of owning the equity interests of other subsidiary entities. Finally, the American Family group of companies also makes venture capital seed investments in growth stage companies whose products may impact the property casualty insurance industry, through New Ventures, LLC.

III. <u>The Property Casualty Insurance Market and Challenges Facing AFMIC</u>

Q: Thank you for that overview. I'd like to now move to the proposed mutual holding company conversion. First, what caused AFMIC to begin considering the possibility of restructuring the Company?

A: AFMIC's Board of Directors and management regularly evaluate the Company's strategic position and try to position it as a competitive, strong insurer capable of meeting its customers' insurance needs in an environment of rapid change. The changes the Board of Directors and management see include new underwriting methodologies in the property casualty insurance space, new sources of data and new tools with which insurers can analyze and act on that data, new technologies to prevent or mitigate losses and claims and protect our policyholders and the public, and new distribution channels for insurance products.

In broad terms, the Board of Directors believes that companies that have the structural, financial and strategic flexibility to respond quickly and decisively to changes (including those I just described and many more that we cannot yet anticipate) will be strong and competitive in the property casualty insurance industry of the future. The Board of Directors also believes that the current structure of AFMIC limits the Company's flexibility in the face of such changes and hinders its ability to grow and diversify its business through acquisitions or investments.

Q: Tell us more about how AFMIC's current structure limits its flexibility and ability to adapt to the rapidly changing property casualty insurance marketplace.

A: There are four primary challenges that AFMIC's Board of Directors see arising from its current structure. First, AFMIC's mutual insurance company structure limits its ability to sell new products while maintaining its mutuality. Second, AFMIC has limited ability to acquire and grow ancillary and non-insurance subsidiaries. Third, AFMIC's ability to pursue mergers and acquisitions is constrained by its current structure. Finally, AFMIC's access to capital is restricted by its current structure.

Q: Can you tell us how AFMIC's mutual insurance company strategy limits its ability to grow while remaining distinctively "mutual"?

A: Because of state regulatory requirements, insurance companies like AFMIC are often prevented from selling new products while they continue to sell their current generation of products. Many insurers, including AFMIC, use stock subsidiaries to offer new, alternative products. The policyholders of these stock subsidiaries are not eligible for membership in AFMIC, despite purchasing insurance products that would have been issued by AFMIC, but for AFMIC's decision to avoid disrupting existing policyholders, and continue offering its "classic" products for renewal by existing mutual company policyholders at the same time the new product designs are being offered. As the American Family group of companies sells more of these new products, the number of policyholders of the group companies who are mutual company members will decline, resulting in a narrower mutual ownership.

Q: What restrictions does AFMIC's mutual insurance company place on its ability to acquire and grow ancillary or non-insurance subsidiaries?

A: Investment restrictions applicable to AFMIC limit the extent to which AFMIC can invest in ancillary or non-insurance subsidiaries. So long as the American Family group's ultimate parent is a mutual insurer, the entire enterprise is subject to these restrictions, which is not the case for AFMIC's stock insurer competitors, who are free to use upstream stock holding companies to acquire and grow ancillary and non-insurance subsidiaries.

Q: How does AFMIC's mutual insurance company structure hamper its ability to pursue mergers and acquisitions?

A: AFMIC's ability to pursue certain mergers and acquisitions is hampered by its mutual company structure. More specifically, mutual insurers cannot merge with other mutual insurers without one of the two entities ceasing to exist. This prevents a mutual insurer like AFMIC from acquiring other mutual insurers in ways that allow for efficiencies of scale and operations while maintaining both insurers' goodwill, licenses, and brands. Additionally, mutual insurers like AFMIC have limited options to raise capital for possible mergers and acquisitions, and cannot use stock as "currency" for acquisitions.

Q: How does AFMIC's mutual insurance company structure limit its access to capital?

A: Mutual insurers cannot issue stock to raise capital to grow the enterprise. There are ways for mutual insurance companies to raise capital, but they are more limited than those available to stock insurers or mutual holding companies. Mutual insurers can raise capital through profitable operations over time. They can also sell mutual bonds or contribution notes, but these securities are an expensive form of financing because of the repayment terms imposed by applicable law, and because they can only be sold in private placements. Finally, mutual insurers can sell the stock of a downstream holding company; however, this stock does not reflect the enterprise value of the mutual insurer.

IV. Advantages of the Proposed Conversion

Q: Thank you for that explanation. I next want to address how the proposed mutual holding company conversion would help AFMIC to respond to the marketplace and mitigate or eliminate the challenges you've just described. Let's address each challenge in turn.

A: Sure.

Q: Let's start with the first challenge, about new products and diluting mutuality; can you tell me how the proposed conversion would address this challenge?

A: The American Family group of companies have developed new "Advance" product designs for property casualty products that have more powerful underwriting tools and state-of-the-art features. However, because of state regulations, AFMIC cannot sell these policies unless it stops selling *and* renewing its existing "Classic" products. In order to make the new Advance products available to new and existing policyholders while continuing to offer AFMIC policyholders the opportunity to renew their Classic policies if they desire to do so, the American Family group of companies has elected to underwrite the new generation of Advance policies through stock insurance company subsidiaries of AFMIC (specifically, American Family Insurance Company and American Standard Insurance Company of Ohio).

As a mutual insurance company, AFMIC has a singular focus on the interests of its policyholders both as its insureds and as its owners. AFMIC's management team and Board of Directors believe that this is a source of strength, and have no desire or intention to move away from AFMIC's status as a mutual insurance company owned by its policyholders. However, over time, it is anticipated that the number of persons insured under the Advance products will increase in relation to the number insured under the Classic products. Wisconsin law permits policyholders of downstream stock insurers to be admitted as members of a mutual holding company. Restructuring as a mutual holding company is therefore a means for AFMIC to continue to expand its product offerings and implement new underwriting methodologies through stock subsidiaries, while continuing its 90-year tradition of extending mutual company member status to the purchasers of American Family-branded property casualty products sold through American Family agents.

Q: Moving to the second challenge, how would the proposed conversion help AFMIC acquire and grow ancillary and non-insurance subsidiaries?

A: AFMIC's growth strategy includes investing in and/or acquiring non-insurance companies that are developing technologies that can provide synergistic benefits, such as preventing accidents, property damage, or theft and saving lives, to its property casualty customers. However, under Wisconsin law, AFMIC is subject to limits on the amount it can invest in ancillary and non-insurance subsidiaries. AFMIC's proposed new mutual holding company would be able to use its intermediate stock holding company to acquire and grow ancillary or non-insurance entities without being subjected to the regulatory restrictions that currently limit AFMIC's ability to take advantage of these strategic opportunities. To the extent policyholders obtain access to the new technologies being developed by these companies, this would have the salutary side effect of also reducing claims and costs for the American Family group of insurance companies. Any distributions to the intermediate stock holding company from the stock insurer into which AFMIC is converted in the proposed conversion (which I'll call "Converted AFMIC") or its insurance company subsidiaries would remain subject to regulatory scrutiny, including rules regarding extraordinary dividends, and to independent review by industry rating agencies.

Q: Next, how would the proposed conversion help AFMIC grow its business through mergers or acquisitions?

A: AFMIC's mutual insurance company structure makes mergers with other mutual insurers more challenging and less advantageous than they would be under a mutual holding company structure. A mutual holding company has a broader range of options for pursuing acquisitions that preserve the separate identity, licenses, brand, and goodwill of other mutual insurers being acquired. Specifically, a mutual holding company can acquire mutual insurance companies through a sponsored conversion whereby the acquired mutual insurance company's policyholders become members of the acquiring mutual holding company. This results in the converted mutual insurance company becoming a stock subsidiary, while retaining its identity, licenses, brand, and goodwill. This is in addition to the ability to acquire stock insurers as subsidiaries, which AFMIC already has, and has exercised. Additionally, two existing mutual holding companies can merge, without affecting the identity of downstream insurance companies in either entity. Sponsored conversions and mutual holding company mergers are not available to AFMIC as a mutual insurance company, but will be available after the proposed conversion.

Additionally, the mutual holding company structure also presents multiple options to raise capital for acquisition purposes that are not available to AFMIC as a mutual insurer, or to issue stock (after receipt of the requisite approvals) from the intermediate stock holding company to use as currency for acquisitions.

Q: That leads to my next question. Please give us more detail on how the proposed conversion would provide AFMIC with enhanced access to capital.

A: The mutual holding company would be able to access the private and public capital markets with voting or nonvoting stock or debt securities issued by its intermediate stock holding company or by Converted AFMIC, subject to approval from the Wisconsin Office of the Commissioner of Insurance, which I will call "OCI", and from the members of the mutual holding company, in the case of voting stock, and subject to the requirement that the mutual holding company own at all times at least 51% of the voting stock of Converted AFMIC (directly or indirectly). The proceeds of such securities issuance could be used to purchase other companies, to invest in other strategic growth opportunities, or to support the growth of the insurance business conducted by its subsidiaries.

Q: It sounds like AFMIC will have a lot of new opportunities after the proposed conversion. How will AFMIC's policyholders be protected during and after the proposed conversion?

A: The Plan and Wisconsin law provide a number of protections to AFMIC's policyholders.

Q: Let's explore those protections. Can you describe how policyholders' insurance policies will be protected?

A: Yes. The policy rights and benefits that AFMIC's policyholders currently enjoy will not be reduced or altered in any way as a result of the conversion, except that they will be provided by a stock company owned by a mutual holding company, instead of by a mutual company. Policyholders will have the same coverage, premiums, and other contract terms after the proposed conversion that they have today.

Q: Will AFMIC change its corporate governance structure as a result of the proposed conversion? Could those changes harm policyholders?

A: The corporate governance of AFMIC and the American Family group of companies are not anticipated to change as a result of the conversion, except that members will own the mutual holding company, and the ultimate governance of the group will shift from the Board of Directors of AFMIC to the Board of Directors of the mutual holding company. The same directors will serve on the new mutual holding company's Board of Directors that currently serve on AFMIC's board. Additionally, the officers of AFMIC will continue in their same roles with the new mutual holding company.

Q: Will AFMIC continue to be subject to state regulation after the conversion?

A: Yes. AFMIC will continue to be regulated in the same manner by the Wisconsin Commissioner of Insurance after the proposed conversion as it is regulated today. OCI will still provide oversight of the Company's financial position and ability to meet its obligations to policyholders today and in the future.

Q: What about the new mutual holding company? Is it subject to state regulation?

A: The mutual holding company will be regulated by the Wisconsin Commissioner of Insurance. Under Wisconsin law, the mutual holding company must at all times maintain direct or indirect ownership and control of at least 51% of the voting stock of Converted AFMIC. The mutual holding company cannot amend its articles of incorporation without the prior approval of its members, pursuant to its Articles of Incorporation. The mutual holding company must file any such amendment with OCI within 60 days after adoption, and must also file any changes to its Bylaws. The mutual holding company is prohibited from directly engaging in the business of insurance, and must conduct such business only through licensed stock insurance company subsidiaries. Wisconsin law also prohibits mutual holding companies from delegating to any person the authority to exercise management control of the holding company or any of its major corporate functions to the exclusion of its Board of Directors, so members always retain ultimate control of the mutual holding company. We currently anticipate entering into a stipulation and order with OCI to the effect that the mutual holding company will not pay any dividends without prior approval from the Wisconsin Commissioner of Insurance. Finally, mutual holding companies are prohibited from being acquired, demutualizing, dissolving, or liquidating without the prior approval of the Wisconsin Commissioner of Insurance or a Wisconsin court having proper jurisdiction.

Q: Will AFMIC's policyholders retain their control over the Company?

A: AFMIC's policyholders will initially retain their effective voting control over the enterprise through their ownership and control of the mutual holding company, which will indirectly own and control Converted AFMIC. Eventually, if the number of policyholders of AFIC, ASICO, and other member companies that may be added in the future grows in comparison to the number of AFMIC policyholders, voting control may shift away from AFMIC policyholders, but it will always remain with the members of the mutual holding company.

Q: Will Converted AFMIC or the Intermediate Stock Holding Company be able to sell voting stock to outside investors?

A: The intermediate stock holding company and Converted AFMIC will be prohibited from selling any voting stock without the prior approval of OCI and approval from the members of the mutual holding company. AFMIC has no plans to sell stock, and the Plan does not provide for the sale of stock.

Q: Will any stock be issued to AFMIC's officers or directors as a result of the mutual holding company conversion?

A: No, no stock will be issued to any of AFMIC's officers or directors as a result of the mutual holding company conversion.

Q: Does the proposed restructuring have any income tax consequences for AFMIC, the mutual holding company, Converted AFMIC or any policyholders?

A: No. As a condition to finalizing the mutual holding company conversion, AFMIC must obtain a private letter ruling from the IRS or an opinion of our outside legal counsel to the effect that neither AFMIC, nor the mutual holding company, nor Converted AFMIC, nor any policyholders will recognize gain or loss for federal income tax purposes as a result of the proposed conversion.

Q: Will the proposed conversion trigger any obligation for AFMIC or the mutual holding company to register the membership interests in the mutual holding company under any federal securities laws?

A: No. As a condition to finalizing the proposed conversion, AFMIC must obtain a "no-action letter" from the Securities and Exchange Commission or an opinion of our outside legal counsel that registration is not required under federal securities laws.

V. Alternatives to the Proposed Conversion

Q: You've described the challenges facing AFMIC, and how the proposed conversion will help AFMIC to address these challenges. However, the proposed conversion was not the only strategic alternative available to the Board of Directors. Can you tell me what other alternatives were considered?

A: During the Board's consideration of the proposed conversion to a mutual holding company structure, two principal alternative strategies were identified. The first was to preserve the status quo and remain a mutual insurance company, and the second was to undergo a full demutualization.

Q: Why did the Board of Directors reject preserving the status quo?

A: The Board has also determined that it is in the best interests of AFMIC and its policyholders to be able to extend mutual member status to the purchasers of American Family-branded property casualty products underwritten by American Family Insurance Company and American Standard Insurance Company of Ohio. While AFMIC's current mutual insurance company structure provides the benefits of mutuality to its current members, and allows for organic growth through insurance operations, continuing to operate as a mutual insurance company could place AFMIC at a disadvantage in the marketplace and would restrict AFMIC's ability to grow strategically. The Board of Directors has concluded that it is increasingly important to have structural, financial, and strategic flexibility in the future to respond to changes in the property casualty insurance marketplace, including pursuing potential mergers and acquisitions and making investments in new technology, new distribution channels, new insurance products, and synergistic non-insurance businesses. The Board of Directors has determined that remaining a mutual insurance company will prevent AFMIC and the American Family organization from realizing their full potential, especially compared to competitors who are not mutual insurance companies.

Q: And why did the Board of Directors reject a full demutualization?

A: A demutualization would convert AFMIC from a mutual insurance company, and would not create a new mutual holding company. In essence, it would mean AFMIC would cease to be owned by its policyholders, and would become owned by shareholders.

The Board of Directors identified some potential benefits of demutualization to current AFMIC members during their consideration of this alternative. AFMIC policyholders would receive cash, stock or other consideration in exchange for giving up their rights as members of a mutual company. Demutualized AFMIC could use its stock as currency for acquisitions, and could sell additional stock if necessary to raise additional capital. Finally, the value of AFMIC after demutualization might be higher than it would be after reorganizing to a mutual holding company structure, insofar as the mutual holding company will always have to own, directly or indirectly, at least 51% of the shares of Converted AFMIC. Investors would likely place a lower value on the stock of a downstream subsidiary of a mutual holding company as a result of their inability to acquire a controlling interest.

Despite these potential benefits, the Board of Directors has concluded that maintaining our mutuality is important to preserve the Company's focus on the best interests of its policyholders. Additionally, the Board of Directors believes it is important to retain and enhance the Company's ability to merge with, acquire or affiliate with other mutual entities in a way that preserves the separate insurance operations and brands of both AFMIC and such other mutual entities. Demutualization is inconsistent with both of these important goals; it would terminate the mutual rights of AFMIC's policyholders, and significantly reduce AFMIC's ability to acquire other mutual insurers.

There are also a number of other disadvantages of demutualization as a strategy for AFMIC.

First, demutualization may be an inefficient way to raise capital. Under Wisconsin law, AFMIC would be required to distribute cash, stock or other consideration to current and former (within the previous five years) policyholders with an aggregate value up to 100% of all premiums paid by such policyholders , with interest at the legal rate, compounded annually. While this could be viewed as a benefit to those policyholders, the actual value of the distributed stock could be substantially depressed if there is no public trading market for the stock, or if demand to sell the stock significantly exceeds the demand to purchase it.

Second, demutualization would subject AFMIC to future demands of investors focused on short term market performance, rather than the Company's present focus on long term objectives benefitting current and future policyholders.

Third, a demutualization could result in AFMIC's policyholders losing voting control over the enterprise. Although stock would initially be distributed to former members of AFMIC, who would continue to have voting rights, persons besides former members could acquire sufficient stock holdings to become the controlling shareholders.

Finally, in the Board of Directors' view, demutualization would be more difficult to structure, more time consuming, and more expensive than the proposed conversion.

Q: In light of the deliberations you've described, has the Board of Directors of AFMIC made a recommendation to the policyholders for their vote?

A: Yes. The Board of Directors unanimously adopted the Plan and the transactions contemplated thereby. The Board has recommended that all eligible members vote yes on the proposed conversion.

VI. Mechanics of the Proposed Conversion

Q: Now that we have identified why the Board of Directors approved the proposed conversion and recommended that members vote for it, I'd like to turn to the details of the conversion itself. Are you familiar with how the proposed conversion will be implemented from a legal and corporate perspective?

A: Yes, I am.

Q: Can you summarize the mechanics of the proposed conversion?

A: There are a number of actions that will occur in conjunction with the proposed conversion.

First, on or before the effective date of the proposed conversion, AFMIC will incorporate a new intermediate stock holding company, AmFam Holdings, Inc., which I'm going to call "Holdings" for simplicity, as a Wisconsin business corporation under Chapter 180 of the Wisconsin statutes.

Then, on the effective date, a number of things will occur:

- American Family Insurance Mutual Holding Company, which I'm going to call "AFI MHC", will be incorporated as a Wisconsin mutual holding company under Chapter 644 of the Wisconsin statutes.

- AFMIC will become a Wisconsin stock insurance company (that is, Converted AFMIC).

- The membership interests and rights in surplus of AFMIC will be extinguished, and the members of AFMIC will become members of AFI MHC, with such rights and privileges, including membership interests and rights in surplus, as are provided for by law and the Articles of Incorporation and Bylaws of AFI MHC.

- Holdings will be issued 100% of the initial shares of voting stock of Converted AFMIC.

- AFI MHC will be issued 100% of the initial shares of voting stock of Holdings.

- AmFam, Inc. and American Family Life Insurance Company will transfer 100% of the limited liability company membership interests of New Ventures, LLC to Holdings.

- AmFam, Inc. and American Family Life Insurance Company will assign to Holdings, and Holdings will assume, all of AmFam, Inc.'s and American Family Life Insurance Company's rights and obligations under the Operating Agreement of New Ventures, LLC and any related agreements or undertakings.

- Converted AFMIC will make a $50 million distribution to New Ventures, LLC.

Converted AFMIC will be considered to have been organized at the time AFMIC was organized, so that the corporate existence of AFMIC will continue without interruption in all respects and will be unaffected by the conversion.

The Articles of Incorporation and Bylaws of AFMIC shall, without further deed or act, be amended and restated as the "Second Amended and Restated Articles of Incorporation" and "Third Amended and Restated Bylaws" of Converted AFMIC, as set forth in Exhibits B and C, respectively, to the Plan on file with OCI. These revised Articles of Incorporation and Bylaws will supersede in their entirety the current Articles of Incorporation and Bylaws of AFMIC. On the effective date, the Articles of Incorporation and Bylaws of AFI MHC shall be as set forth in Exhibits D and E, respectively, to the Plan on file with OCI, respectively, and the Articles of Incorporation and Bylaws of Holdings shall be as set forth in Exhibits F and G, respectively, to the Plan on file with OCI, respectively.

The conversion of AFMIC into a stock insurance company subsidiary of AFI MHC will in no way annul, modify or change any of AFMIC's existing suits, rights, property interests, contracts or liabilities. Converted AFMIC will exercise all of the rights and powers and perform all of the duties conferred or imposed by law upon insurers writing the classes of insurance written by AFMIC before the effective date of the conversion, and shall retain the rights and contracts existing prior to the effective date, except with respect to membership interests and rights in surplus that are extinguished and replaced by membership interests and rights in surplus of AFI MHC.

Q: Will policyholders of any AFMIC subsidiary insurers become members of the mutual holding company?

A: Yes. The Plan provides for policyholders of American Family Insurance Company and American Standard Insurance Company of Ohio to become members of the new mutual holding company.

Q: When will that take place?

A: Under the Plan, the existing policyholders of American Family Insurance Company and American Standard of Insurance Company of Ohio will become members on the effective date of the conversion, unless AFMIC's Board of Directors exercises its authority to nullify this portion of the Plan by Board action taken prior to the effective date of the conversion. In addition, persons acquiring or renewing a policy issued by American Family Insurance Company and American Standard Insurance Company of Ohio policies after the effective date of the conversion will become members at such time as the policy is issued or renewed. Based on current information, Company management intends to recommend to the Board of Directors of AFMIC that the Board exercise its authority under the Plan to nullify the Plan provision extending membership to all American Family Insurance Company and American Standard Insurance Company of Ohio policyholders immediately on the effective date of the conversion.

VII. Compliance with Legal and Corporate Requirements

Q: Thank you. I'd like to move to discuss the procedures AFMIC has followed and will follow to complete the conversion. What was the first step in that process?

A: The first step was for the Board of Directors of AFMIC to adopt the Plan.

Q: When did the Board of Directors do that?

A: The Board of Directors adopted the Plan on September 30, 2016.

Q: Is that Plan the same plan that is the subject of today's hearing?

A: Yes, it is.

Q: What was the next required step?

A: AFMIC filed the Plan with OCI, along with various other documents required under the mutual holding company laws in Chapter 644 of the Wisconsin Statutes. The Plan was filed on September 30, 2016, the same day it was adopted by AFMIC's Board of Directors.

Q: What is the next required step?

A: The next step is for the Wisconsin Commissioner of Insurance to hold a hearing on the Plan.

Q: That is today's hearing, right?

A: Yes, that's correct.

Q: Did AFMIC have any other statutory obligations with respect to today's hearing?

A: Yes. AFMIC was required to mail a notice of this hearing and the public hearing immediately following it to each person who was a policyholder of AFMIC on the date of the Board of Directors resolution approving the Plan, which was September 30, 2016. AFMIC was also required to mail notice of today's hearings to the insurance commissioner of every jurisdiction in which AFMIC is authorized to do business.

Q: When was AFMIC required to mail these notices?

A: Not more than 60 days and not less than 10 days before today's hearing.

Q: When did AFMIC mail these notices?

A: Our proxy solicitation agent, AST Fund Solutions, mailed notices to our policyholders between October 11 and October 21, 2016. AFMIC delivered notices to the relevant insurance commissioners on October 19, 2016.

Q: What had to be included in the mailings?

A: The mailings were required to include notice of this hearing as prepared by OCI, a copy of the Plan, and information regarding the Plan approved by OCI, which in this case constitutes a Policyholder Information Statement with a number of exhibits, which is on file with OCI and is part of the record for today's hearing.

Q: Were all of those items included in the mailings?

A: Yes. In addition, AFMIC included a letter to its members from Jack Salzwedel, who is Chairman, Chief Executive Officer, and President of the Company, a proxy card, and a "Frequently Asked Questions" document, all of which were reviewed and approved by OCI.

Q: Assuming the Plan is approved by the Wisconsin Commissioner of Insurance after today's hearings, what happens next?

A: The Plan must be approved by a vote of three fourths of the eligible members of AFMIC present in person or by proxy and voting at an annual or special meeting held for that purpose.

Q: Has a special meeting been set for that vote?

A: Yes. A unanimous written consent action of the Board of Directors of AFMIC, effective September 30, 2016, called for a special meeting of members to take place at 2:00 p.m. local time on December 7, 2016, for the purpose of voting on the Plan and the proposed conversion.

Q: Who is eligible to vote at the December 7, 2016 special meeting of AFMIC's policyholders?

A: For statutory purposes, anyone who was a member on the date of the Board of Directors written consent approving the Plan and who was still a member on the record date established by the Board for the special meeting is entitled to notice of, and to vote at, the special meeting. For purposes of AFMIC's current Bylaws, anyone who was a member on the record date is entitled to notice of, and to vote at, the special meeting.

Q: Did the Board of Directors set a record date for the December 7, 2016 special meeting of AFMIC policyholders?

A: Yes, by the same unanimous written consent action effective September 30, 2016, the Board of Directors set September 30, 2016 as the record date.

Q: That means the record date and the resolution date are the same?

A: Yes, that's correct.

Q: What are the timing requirements for providing notice of the December 7, 2016 special meeting to eligible members?

A: By law, notice must be mailed no later than 20 days before the special meeting.

Q: When did AFMIC mail these notices of the special meeting?

A: AFMIC mailed these notices in the same mailing that was sent to give notice of today's hearings, so the mailings were sent between October 11 and October 21, 2016.

Q: AFMIC combined the statutory mailing and the mailing of notice of the special meeting?

A: Yes, that's correct.

Q: So, what was mailed to the policyholders in October?

A: Each policyholder was mailed a packet containing a letter from AFMIC's Chairman, Chief Executive Officer, and President, a proxy card and prepaid return envelope, a notice of today's hearings, notice of the December 7, 2016 special meeting, a Frequently Asked Questions document, and a Policyholder Information Statement with various exhibits, including a copy of the Plan, and all of the exhibits to the Plan.

Q: Was this packet and its contents reviewed and approved by the Wisconsin Commissioner of Insurance before it was mailed to AFMIC policyholders?

A: Yes. Kristin Forsberg of OCI communicated OCI's approval of the final package by e-mail on September 29, 2016.

Q: If the eligible members of AFMIC approve the Plan at the December 7, 2016 special meeting, what is required thereafter?

A: Following the meeting, appropriate officers of AFMIC will execute affidavits and/or certificates concerning the member vote, and will execute the articles of incorporation and bylaws of AFI MHC, Holdings, and Converted AFMIC. Thereafter, upon satisfaction of all conditions precedent to finalizing the conversion, AFMIC will file these documents with OCI and ask that a new certificate of authority for Converted AFMIC and a certificate of incorporation for AFI MHC be issued. The day these two certificates are issued will be the effective date of the conversion, and the actions I described earlier will all take place.

VIII. Satisfaction of Statutory Criteria

Q: Are you aware of the statutory requirement that the proposed conversion be approved by the Wisconsin Commissioner of Insurance before it can go into effect?

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 Plan?

A: Yes.

Q: The first statutory requirement is that the proposed conversion must not violate the law. Do you think the proposed conversion violates the law?

A: No, I do not. As I just explained, AFMIC has carefully complied, and will continue to carefully comply, with all statutory requirements and corporate procedures applicable to the proposed conversion.

Q: Can you reiterate the steps AFMIC has taken to comply with the law in connection with the proposed restructuring?

A: First, the Board of Directors of AFMIC adopted the Plan by unanimous written consent on September 30, 2016 and filed the Plan and other required documents with OCI as required under Chapter 644 of the Wisconsin Statutes.

Second, the Board of Directors, by the same September 30, 2016 unanimous written consent action, scheduled a special meeting of members to take place on December 7, 2016 for the purpose of voting on the Plan, and established September 30, 2016 as the record date for determining which members are entitled to receive notice of, and to vote at, that special meeting.

Third, AFMIC's current Articles of Incorporation require any amendments to such Articles to be approved by not less than three fourths of the members voting at an annual or special meeting. While it may be the case that this corporate requirement is overridden by the statutory requirement that the Plan—which includes amendments to AFMIC's Articles of Incorporation which take effect by operation of law in connection with the conversion—be approved by a simple majority of the Company's members. To avoid any uncertainty and to offer AFMIC's members maximum protection, the Board of Directors decided to subject the Plan's approval to the higher voting threshold imposed by AFMIC's current Articles of Incorporation. That means that the Plan will only become effective, and the proposed conversion will only take place, if approved by three fourths of AFMIC's eligible members who are present and voting, in person or by proxy, at the December 7, 2016 special meeting.

Fourth, acting through an independent proxy solicitation firm, AST Fund Solutions, AFMIC mailed the required notice of today's hearings and the special meeting of members to all eligible members of AFMIC and to the insurance commissioners of every jurisdiction in which AFMIC is licensed to do business. These notices were prepared by OCI, in the case of the notice of today's hearings, or reviewed by OCI, in the case of the notice of special meeting, before they were mailed. As authorized by Section 644.07(8) of the Wisconsin Statutes, both notices were sent to AFMIC's eligible members in a single mailing sent from October 11 through October 21, 2016. The notices were delivered to the relevant insurance commissioners on October 19, 2016. In each case, the notices complied with the notice requirements of both applicable Wisconsin law and the current Articles of Incorporation and Bylaws of AFMIC.

Fifth, AFMIC included with this mailing a Policyholder Information Statement that was reviewed and approved by OCI prior to mailing. The Policyholder Information Statement included copies of the Plan and each of its exhibits, and a summary of the Plan describing its effects, the Board of Directors' considerations in approving the Plan, and the conditions to closing on the Plan, among other information.

Finally, AFMIC's independent proxy solicitation firm will receive and tabulate all proxies and ballots submitted in connection with the Plan pursuant to voting procedures established by the Company and approved by OCI. The proxy solicitation firm will certify the results of the member vote to AFMIC, and AFMIC will prepare and file an affidavit with OCI attesting to the same.

Q: The second statutory requirement is that the Plan be fair and equitable to AFMIC's policyholders. Do you think the Plan is fair and equitable to the Company's policyholders?

A: Yes, I believe that the Plan is fair and equitable to AFMIC's policyholders.

Q: Can you tell us the basis for your opinion in this regard?

A: First, the contractual rights and obligations of AFMIC's policyholders—and by this I mean the premiums, policy terms, insurance benefits, and services provided to or required of AFMIC's policyholders under their AFMIC policies—will not change as a result of the Plan, except that after the effective date those rights and obligations will be provided or required by Converted AFMIC, a stock company, rather than AFMIC as a mutual company.

Second, while the current membership rights in AFMIC enjoyed by AFMIC members will be extinguished as a result of the proposed conversion, those membership rights will be replaced by comparable membership rights in AFI MHC, the mutual holding company created as a result of the proposed conversion. AFI MHC will own 100% of the stock of Holdings, which will in turn own 100% of the stock of Converted AFMIC, the successor to AFMIC.

Now, as I've discussed before, policyholders of two existing stock insurance company subsidiaries of AFMIC—American Family Insurance Company and American Standard Insurance Company of Ohio—will become members of AFI MHC after the proposed conversion. These policyholders will have the rights and privileges available under Wisconsin law and AFI MHC's Articles of Incorporation and Bylaws. While this change will dilute the voting power of existing AFMIC policyholders, changes in the voting power held by any single member of AFMIC (or any other mutual insurer) are always subject to change through any change in the number of policies in effect. In my opinion, the Plan and the transactions contemplated along with it represent a fair and equitable exchange of rights and benefits for the policyholder members of AFMIC.

Finally, I note that the Plan will not go into effect unless it is approved by not less than three fourths of the eligible members present and voting at a special meeting of AFMIC's members duly called for such purpose. The notice given to eligible members of this special meeting included a detailed Policyholder Information Statement—which was reviewed and approved by OCI—explaining the Plan, the Board's reasons for adopting it, and the effects of the proposed conversion on AFMIC's members. This Policyholder Information Statement sets forth in detail voting considerations, risks, alternatives and other matters reasonably to be considered by AFMIC's eligible members in deciding if and how to vote on the Plan.

Q: The third and final statutory requirement is that the proposed conversion not be contrary to the interests of the policyholders or of the general public. In your view, is AFMIC's proposed conversion contrary to the interests of the policyholders of AFMIC or the general public?

A: No.

Q: Again, can you tell us the basis for your opinion in this regard?

A: Yes, there are several grounds for my opinion. As Daniel Kelly will describe in more detail, the proposed conversion is not expected to materially affect the Company's financial strength or ability to pay policyholder claims.

Additionally, I submit that the proposed conversion is not only *not contrary* to the interests of AFMIC's policyholders or the general public, it is in the *best interests* of both AFMIC's policyholders and the general public. AFMIC's Board of Directors believes that the most successful insurance organizations in the future will be those with the structural, financial and strategic flexibility to act decisively and quickly in response to changes in the insurance marketplace. That flexibility is critical to achieving sustainable, profitable, long-term growth, and in today's highly competitive insurance marketplace, that is the best means for ensuring the future safety and soundness of the American Family group of companies. That benefits not only AFMIC's policyholder members, but also the policyholders of our subsidiaries, our employees and their families, our agents and other partners, and the communities in which we live and work

IX. <u>Closing Remarks</u>

Q: Thank you, Mr. Holman. I have only one further question. Can you provide us with current proxy counts regarding AFMIC member approval of the Plan?

A: Yes, I can. As of November 14, 2016, out of 196,488 total proxies received, there are 166,464 proxies in favor of the Plan, representing approximately 84.72% of the total proxies received, and 30,024 proxies against the Plan.

Q: Thank you. Would you like to make any closing remarks?

A: While I understand we have one more witness yet to testify, I want to take this time to thank the Wisconsin Commissioner of Insurance, and all of his staff, for their thoughtfulness, hard work, and diligence throughout this process. AFMIC and the American Family group of companies deeply appreciate the dedication and professionalism you have exhibited throughout this process, and which is entirely consistent with the manner in which you exercise your authority as regulator of the Wisconsin insurance industry. Thank you.