October 30, 2016

American Family MHC Restructuring Comments
Office of The Commissioner of Insurance
P.O. Box 7873
Madison, WI 53707-7873

Dear Regulatory Officials,

My wife, Darcy A. Daniels, and I hold multiple policies with American Family Insurance; I am writing to oppose the proposed restructuring of the company, based on information the company has provided. This is a very bad deal for policyholders and a very, very good one for American Family executives. In making its case for restructuring, the company is vague about why it's good for consumers and its claims about why it's good for the company are based on shaky, unexplained premises.

Vague Benefits for Customers
In the cover letter to policyholders from Jack Salzwedel, he writes that the proposed restructuring is "all about the future and our customers. It will position American Family to meet customer needs in an age of automated cars, smart homes and other advanced technologies that are already altering lives and the insurance industry."

At first, this sounds good: the plan is going to position AF to "meet customer needs." What does that mean? That's never made clear. I'm baffled as to how things like automated cars and smart homes affect American Family's ability to meet my needs as a policyholder. The usual way that insurance companies deal with new technological, environmental, and social developments is to issue riders to existing policies that expand or limit benefits or coverage exclusions, or they adjust the policy itself. One does not have to completely restructure the company just because Tesla manufactures self-driving cars.

Increased Risk to the Company
The other three reasons the company advances, in its information booklet, include being able to:

1. acquire ancillary or non-insurance subsidiaries;
2. pursue mergers and acquisitions; and
3. raise capital more cheaply.

These are offered without any explanation of why these things are good for the company, aside from an implied assumption that growth of any kind – in the field of insurance or not – must, of necessity, be a good thing. What is an example of an "ancillary subsidiary" that would benefit policyholders? None is given. And why is it a good idea for American Family Insurance to acquire *non*-insurance subsidiaries? And why do policyholders even want their insurance company to be able to acquire other companies? Growth is not always a good thing. Acquisitions carry considerable risk for the company (especially when acquiring businesses outside the company's expertise and which aren't necessarily related in any way to insurance) – though they often do result in staggering rewards for the company's leadership, even when the acquisition turns out to have been a bad idea. Policyholders, of course, don't reap the benefits of such acquisitions – in the form of lowered premiums, say. The only conclusion one can draw is that American Family's leadership has lost focus on its core business, or doesn't really want to be in that business anymore.

Transferring Power from Policyholders to the Company
As to raising capital more cheaply, that's obviously something American Family Insurance only needs if it wants to acquire other companies—a strategy it has failed to justify, as I think I've made clear.

In its information booklet, AFI explains that a mutual insurance company can't raise capital cheaply, but a restructured one can do so by creating an intermediate stock holding company with stock that can be sold. That may be true; I wouldn't know. Nor does the company have immediate plans to actually sell any voting stock; however, it wants to *be able* to do so. Obviously, if this is how it will raise capital cheaply, it will do so eventually.

The company tries to reassure policyholders that it will need member approval before it can sell any voting stock. That may sound like a good check-and-balance, but (a) most members (policyholders) won't vote – they won't even open mail sent to them on the subject; (b) this restructuring will add a lot of new "members" who are currently policyholders in other existing subsidiaries American Family Insurance, as well as members from any new companies it acquires. As the company notes on p. 27 of the info booklet, that may lead to conflicts, because "current members may want insurance with the greatest possible value while the new members may want the highest return on investment." I.e., the small number of member/policyholders who *do* vote on the issuance of voting stock will very likely be outnumbered by people who don't care about the interests of existing insurance policyholders, and they may be more motivated to vote.

The Proposal is a Shell Game
Finally, as far as I can tell, current policyholder/members won't automatically own any stock in the new stock subsidiary, because our membership will be transferred to a (valueless) holding company, not the new stock holding company. And this appears to be a transfer of value from policyholders to the company. As I'm sure you're aware, Liberty Mutual restructured in a similar way in 2001[1], and did what I believe is the same thing as American Family is doing now: it transferred membership of policyholders to a valueless holding company, and then gave its executives most of the quite valuable stock in the new subsidiary. Here's the key quote from the source I've footnoted:

> "Liberty Mutual policyholders, according to Schiff, would receive on average $6,060 to $9,090 if the company fully demutualized and thereby provided stock or equivalent cash payments to its insureds/'owners.'"

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[1] "Mutual Holding Company: A Shell Game," by Richard Rambeck, *Insurance Journal,* April 23, 2001, at http://www.insurancejournal.com/magazines/partingshots/2001/04/23/21980.htm.

If that applies for American Family policyholders, then policyholders are being legally swindled out of significant value – we wouldn't ever see it, necessarily, but there's no reason why American Family Insurance executives should simply take it from us. True, I haven't found language in any of the supplied materials saying whether or not American Family executives will get a lot of the voting stock of the new subsidiary, when it's issued, but I also can't find anything saying they won't, either.

The Lawsuit: Policyholders' Rates Could Go Up

If that's not enough, there's another consideration. As you must know, American Family's own agents filed a class action lawsuit against the company in 2013, claiming that the company had incorrectly categorized them as independent contractors in order, they alleged, to get out of providing them with retirement benefits and health, life, disability and dental plans like other employees of the company. A federal judge rejected American Family's attempts to dismiss the lawsuit in August, which will now move forward.

Beyond the fact that I'd like American Family to treat its employees fairly, here's why it should matter to you, as regulators: if the company loses this case, and American Family Insurance restructures as it pleases, it seems probable that costs will be borne by the new mutual holding company—the one policyholders like my wife and I will be members of—and not the new subsidiary. I can't be sure what effect that will have on rates, but one can guess.

The Process is Cynically Designed to Look Fair -- But Isn't

Finally, there's the issue of basic fairness. American Family Insurance is presumably following the letter of the law in sending out information and voting packets to all of its policyholders to review and approve this plan. Taken at face value, that seems fair enough: policyholders get a chance to review the deal, and vote. But the reality is – and the company is counting on this – policyholders get a *lot* of routine mail from the company. We all have busy lives and are unlikely to open this information in the first place, or not in time to vote – I nearly didn't, myself. Finally, we're being asked to vote on something that's abstruse and, for most of us, boring – and the only information we have has been composed by the very people who stand to gain the most from the restructuring. It's easy to make the proposal sound like nothing significant will change for us, and for most readers, Mr. Salzwedel's mumbling about self-driving cars and "technologies or programs that can help prevent accidents and save lives" sounds impressive, empty though it is.

Instead, at the very least, policyholders should also be supplied with an independent, expert analysis about the pros and cons of the deal. In addition, policyholders should be contacted in multiple ways to alert them to the proposal – not just via mail, but telephone, email, and social media.

I know that's a lot to ask at this juncture. But I mention it because I want to impress upon you that you, as regulators, have a huge responsibility of balancing the needs of insurance policyholders all over the country with those of the companies that do business in your state. And I ask that you consider the many ways in which the apparently-fair system is actually stacked in favor of the company, and to hold it to a higher standard of responsibility for playing fair with its own customers than it has assumed to date. When the hearing is held, the odds will be lopsided – industry tends to dominate such hearings, and policyholder representation is unlikely to be significant or credible.

Only You Can Stand Up for Policyholders
Only you can change those odds, by thinking seriously about what this deal really means for policyholders. If American Family can't make a clearer and more specific case about why the restructuring is good for policyholders—and the best it has done on a concrete level is to reassure us that our rates won't change because of the merger—then it's reasonable to conclude that it's *not* good for policyholders, and that it *is* good for those pushing it.

My wife and are voting against the plan – and so should you.

Sincerely,

Benjamin Chambers
3114 NE 47th Ave.
Portland, OR 97213

Policy #s:
Auto: 2178-5801-01-71-FPPA-ORPolicy #
Life: 2792399-1
Home: 36BL-1807-01-82-PHGS-OR
Business (Benjamin): 36 X43623-01