



State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

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DATE: September 22, 2011

TO: Regina M. Frank [Signature]

FROM: Tim Vande Hey

SUBJECT: In the Matter of the Acquisition of Control of Esurance Insurance Company and Esurance Insurance Company of New Jersey by The Allstate Corporation and Allstate Insurance Holdings, LLC (Case No. 11-C33963)

Wisconsin OCI
Exh #: 14.0
Case #: 11-C33963

This memorandum is regarding the proposed Acquisition of Control of Esurance Insurance Company (EIC) and Esurance Insurance Company of New Jersey (EICNJ), both Wisconsin domiciled property and casualty insurance companies (together, Esurance Domestic Insurers), by The Allstate Corporation (Allcorp) and Allstate Insurance Holdings, LLC (AIH, and together with Allcorp, the Applicants), both Delaware holding companies (the Proposed Transaction).

DESCRIPTION OF THE TRANSACTION

Overview

Esurance Insurance Company & Esurance Insurance Company of New Jersey

Esurance Insurance Company was organized in Oklahoma on December 1, 1933, as Tri-State Casualty Insurance Company and commenced business on December 5, 1933. The company changed its name to Esurance Insurance Company (EIC) on August 27, 2002, and redomiciled from Oklahoma to Wisconsin on May 18, 2006. EIC is currently a part of the insurance holding company system of White Mountains Insurance Group, Ltd. and is a subsidiary of Esurance Holdings, Inc.

On October 1, 2003, EIC purchased the California domiciled Esurance Property and Casualty Insurance Company (EPC) from their affiliate OneBeacon Insurance Company. EPC is also included along with EIC and EICNJ (defined below) in the acquisition. The California Department of Insurance is reviewing the proposed change of control concurrently related to its domestic insurer.

EIC is licensed in the District of Columbia and all 50 states except Delaware, Idaho, Minnesota, New Hampshire, New Mexico and Wyoming. EIC actively writes business in 27 states and had a total of direct premiums written of \$527,929,126 in 2010 and \$526,986,988 in 2009.

Esurance Insurance Company of New Jersey (EICNJ) was incorporated under the laws of Iowa on October 22, 1919, as Inter-State Liability Insurance Company, and commenced business on October 27, 1919. EICNJ has been a part of White Mountains Insurance Group, Ltd. since June 1, 2001.

On July 31, 2006, EICNJ was purchased by Esurance Holdings, Inc. (EHI) from OneBeacon Insurance Company. EHI acquired EICNJ in order to gain a tax benefit on its New Jersey writings. On November 22, 2006, the company was contributed from EHI to EIC. The company changed its name to Esurance Insurance Company of New Jersey on December 28, 2006, and simultaneously transferred its state of domicile from the State of Iowa to the State of Wisconsin.

EICNJ is licensed in 26 states, but currently has only written business in New Jersey. In 2010 they wrote a total of \$77,428,297 of direct premiums and in 2009 a total of \$41,905,703.

EIC and EICNJ both market personal auto insurance through their affiliate, Esurance Insurance Services, Inc. (EISI). The target market includes auto owners inclined to use the internet and other technological options to purchase insurance and manage their accounts. Coverage is sold through EISI's website and over the phone.

#### The Allstate Corporation and Allstate Insurance Holdings, LLC

Allcorp is a publicly traded holding company that is listed on the New York Stock Exchange under the symbol "ALL". Together with its various subsidiaries (altogether referred to as "The Allstate Group"), Allcorp is the largest publicly held personal lines insurer in the U.S. The Allstate Group writes both property-liability insurance business and life insurance and annuity business.

The Allstate Group sells policies mostly through exclusive agencies, but consumers also may purchase policies directly from those operations through call centers and the internet.

Allstate Insurance Holdings, LLC is a Delaware limited liability company whose sole member is Allcorp. AIH is the holding company for the majority of Allcorp's insurance operations.

The Applicants have two primary objectives in entering into the Proposed Transaction. First, by acquiring the Esurance insurers, the Applicants hope to expand their ability to serve customers that are self-directed but still prefer a branded insurance product. The Esurance insurers offer personal auto insurance products directly to consumers in 30 states (according to the Form A this covers approximately 86% of the personal auto insurance market in the United States) by website and phone. The Esurance insurers also issue personal auto policies through select online agents and offer other types of insurance products through distribution agreements with third party insurers.

Second, by acquiring Answer Financial Inc. (AFI) and its subsidiary, Insurance Answer Center, LLC (IAC), the Applicants expect to strengthen their offering to individuals who want to be offered a choice between insurance carriers and are brand-neutral. IAC is one of the largest personal lines insurance agencies in the United States, and sells personal auto and property insurance in all 50 states, both online and over the telephone.

#### *Recent Transactions*

On June 27, 2008, Allcorp acquired Partnership Marketing Group (PMG) from GE. PMG was combined with Allstate Motor Club to form Allstate Roadside Services, which now serves a wide array of industries and serves more than 4 million customers.

On July 1, 2010, Hyatt Legal Plans purchased Signature LegalCare from Allcorp. Allcorp acquired the group legal-services provider in the 2008 acquisition of PMG. As a small provider of group legal plans, Signature LegalCare did not fit into Allcorp's core business strategy, thus their decision to sell.

On February 8, 2011, it was announced that Allcorp and Discover Financial Services planned to enter into a multi-year distribution and marketing agreement. As part of this transaction, Discover Bank would purchase substantially all of the deposits of Allstate Bank. This transaction was terminated in August 2011 due to a failure to obtain timely regulatory approvals. On September 19, 2011, the Office of the Comptroller of the Currency approved the wind down and dissolution of Allstate Bank, which is anticipated to be completed by the first quarter of 2012.

*Scope of Wisconsin's Regulatory Concern*

Section 611.72, Wis. Stat., requires the Office of the Commissioner of Insurance (OCI) to approve a plan for acquisition of control if it finds, after a hearing, that the plan would not violate the law or be contrary to the interests of the insureds of any domestic corporation or of the Wisconsin insureds of any participating nondomestic corporation.

**OBSERVATIONS BASED ON REVIEW OF DOCUMENTS AND INQUIRIES**

Format and Informational Sufficiency of the Form A

The Form A filing was prepared in a format that complies with s. Ins 40.02, Wis. Adm. Code. The information contained in the filing and in the supplementary information obtained by OCI in connection with review of this filing is sufficient for OCI to make a decision concerning the proposed plan.

Legality and Fairness of the Proposed Plan

My review of the Form A included a review of the following items:

1. Stock Purchase Agreement dated May 17, 2011, by and between White Mountains Holdings (Luxembourg) S.A R. L., as the Seller (White Mountains Holdings), and The Allstate Corporation, as the Purchaser
2. The Applicants' Pre-Acquisition Organizational Chart
3. The Applicants' Post-Acquisition Organizational Chart
4. Officers and Directors Biographical Information
5. Competitive Impact Statement
6. The Allstate Corporation 10k for year ended 12/31/10 & Annual Report to Shareholders
7. The Allstate Corporation 10k for year ended 12/31/09 & Annual Report to Shareholders

8. The Allstate Corporation 10k for year ended 12/31/08 & Annual Report to Shareholders
9. The Allstate Corporation 10k for year ended 12/31/07 & Annual Report to Shareholders
10. The Allstate Corporation 10k for year ended 12/31/06 & Annual Report to Shareholders
11. The Allstate Corporation 10Q for quarter ended 3/31/11
12. Exhibit 2.15 - The Allstate Corporation Proxy Statement and 2010 Annual Report dated 4/1/11
13. Exhibit 2.16 - The Allstate Corporation Proxy Statement and 2009 Annual Report dated 4/1/10

### **Agreement and Plan of Merger**

Pursuant to the terms of the stock purchase agreement, dated as of May 17, 2011, by and between Allcorp and White Mountains Holdings (Stock Purchase Agreement), and subject to the terms and conditions set forth therein, Allcorp will purchase from White Mountains Holdings, in an all-cash transaction, all of the issued and outstanding capital stock of the following two direct subsidiaries of White Mountains Holdings: 1) White Mountains, Inc. (WMI), a corporation organized under the laws of Delaware (the WMI shares) and 2) AFI, a corporation also organized under the laws of Delaware (AFI Shares). It is anticipated that immediately following the closing of the Proposed Transaction, Allcorp will contribute the WMI shares to AIH and the AFI shares to Allstate Non-Insurance Holdings, Inc.

The aggregate purchase price to be paid in connection with the Proposed Transaction is the sum, subject to adjustment as provided in the Stock Purchase Agreement, of (1) \$700 million and (2) the tangible book value of the acquired entities as of the Closing. The total purchase price is expected to be approximately \$1 billion. The Proposed Transaction will be funded through internal resources of the Applicants. The Proposed Transaction is not subject to any financing contingency.

### **Investment Management Agreement**

As part of the Form A, EIC and EICNJ filed a proposed Investment Management Agreement with the OCI to become member parties. This is an existing Investment Management Agreement between certain Allstate affiliates. The agreement provides that Allstate Investments, LLC (AILLC), will serve as the investment manager of AIC, Allcorp, and certain of their insurance company affiliates and grants AILLC the power and authority to advise, manage, and direct the investment and reinvestment of such assets for the period and on the terms and conditions set forth therein. As compensation, AILLC is paid at cost by each party for which AILLC serves as investment manager. The Form D Prior Notice of Affiliated Transaction was dated July 25, 2011. OCI expects to approve this concurrently with the closing.

### **Service and Expense Agreement**

As part of the Form A, EIC and EICNJ filed a proposed Service and Expense Agreement. This is an existing Amended and Restated Service and Expense Agreement among AIC, Allcorp, and

certain of their affiliates, effective as of January 1, 2004, including the Letter Agreement effective December 1, 2007, and as amended by Amendment No. 1 effective as of January 1, 2009. Pursuant to the Service and Expense Agreement, AIC, Allcorp and certain of their insurance company affiliates provide to each other, at cost, certain services and facilities, including marketing, claims, underwriting, and policyholder services. The Form D Prior Notice of Affiliated Transaction was dated July 25, 2011. OCI expects to approve this concurrently with the closing.

### **Information Sharing Agreement**

As part of the Form A, EIC and EICNJ also filed to become parties to an existing Information Sharing Agreement among AIC and certain affiliates setting forth the terms and conditions under which customer information owned by a party to the Information Sharing Agreement may be accessed by another party in order to comply with certain provisions of The Fair and Accurate Credit Transaction Act of 2003. The Form D Prior Notice of Affiliated Transaction was dated July 25, 2011. OCI expects to approve this concurrently with the closing.

### **Tax Sharing Agreement**

As part of the Form A, EIC and EICNJ filed a Form D Prior Notice of Affiliated Transaction dated July 25, 2011 to become parties to an existing Tax Sharing Agreement among Allcorp and its various subsidiaries pursuant to which the Allstate Consolidated Group has established a method for allocating among its members federal tax liabilities, credits, refunds, benefits, and similar items. Each member of the Allstate Consolidated Group is generally liable for the same amount of tax it would otherwise pay on a separate return basis. OCI expects to approve this concurrently with the closing.

### **Commutation of Existing Reinsurance Agreements**

As part of the Form A, EIC and EICNJ filed a Form D Prior Notice of Affiliated Transaction dated June 20, 2011 regarding affiliated reinsurance changes as supplemented on July 12, 2011. Concurrently, both EICNJ and EPC cede business to EIC pursuant to quota share reinsurance agreements, while EIC cedes business to certain affiliates of White Mountains Holdings pursuant to several in-force and terminated reinsurance agreements. In connection with the Proposed Transaction, Allcorp intends for all of these reinsurance agreements to be commuted. The specific agreements subject to commutation are as follows:

- EICNJ and EIC current 100% quota share
- EPC and EIC current 90% quota share
- Reinsurance Agreements between EIC and Affiliates of White Mountains Holdings (Sirius America Insurance Company, f/k/a White Mountains Reinsurance Company of America, and Sirius International Insurance Corporation (publ))

A non-objection letter dated July 15, 2011 from the State of New York Insurance Department was received with regards to the Proposed Commutation Agreement between EIC and Sirius America and Sirius International.

### **New Reinsurance Agreements**

In connection with the Proposed Transaction, EIC and EICNJ filed the following two quota share reinsurance agreements: (1) a 100% quota share reinsurance agreement between EIC (as cedant) and AIC (as reinsurer), and (2) a 100% quota share reinsurance agreement between EICNJ (as cedant) and Allstate New Jersey Insurance Company (ANJIC – as reinsurer). The Reinsurance Agreements provide that the reinsurers shall indemnify the cedants for a quota-share percentage of the cedants' net retained liability and retained liability which may accrue to the cedants as a result of any loss or losses under any and all policies, contracts, binders, and other evidence of insurance or reinsurance assumed by cedants, whether voluntary or involuntary, and any renewals thereof, issued and/or written by or on behalf of cedants. OCI expects to approve this concurrently with the closing.

### **Reserve Agreements**

In connection with the Reinsurance Agreements and in order to satisfy an A.M. Best rating requirement, the various parties to the Reinsurance Agreements also requested approval to enter into two related Reserve Agreements. Each Reserve Agreement provides that upon a commutation of all or a portion of the business previously ceded under the applicable Reinsurance Agreement, the reserves attributable to the commuted liability shall be subject to a quarterly true up between the parties. In the case of a Reserve Deficiency (as defined in the Reserve Agreements), each Reserve Agreement provides for payments by the reinsurer to the cedant, while in the case of Reserve Redundancy (also defined in the Reserve Agreements), the Reserve Agreement provides for payments by the cedant to the reinsurer.

### **Request for Termination of Stipulations and Orders**

EIC is presently party to two Stipulations and Orders with OCI, 1) Case No. 06-C30500, relating to EIC's reinsurance cessions to its current affiliate Sirius International Insurance Corporation (publ), a Swedish corporation and 2) Case No. 06-C30104, relating to EIC's required compulsory surplus.

It is recommended that both these Stipulations and Orders be rescinded in light of EIC's plans to commute its ceded reinsurance agreements with Sirius America Insurance Company (f/k/a White Mountains Reinsurance Company of America) and Sirius International Insurance Corporation (publ). The Proposed Decision will reference OCI's rescinding of the previous orders.

A letter dated September 20, 2011, from Mr. Mario Rizzo, Senior Vice President & Treasurer, Allstate, noted additional supplemental information will be available to the OCI to ensure adequate ability to monitor underwriting performance and a willingness of Allstate to engage in dialogue if it materially plans to alter capitalization levels of the Esurance Domestic Insurers.

### **Extraordinary Dividend Request**

Prior to the Closing, and as part of a June 15, 2011, Form D, EIC requested the ability to pay an extraordinary dividend to Esurance Holdings, Inc. in the amount of \$46,556,986. The amount of the dividend was to approximate EIC unassigned funds reported as of December 31, 2010. This

dividend will reduce the purchase price paid by Allcorp. OCI expects to approve this concurrently with the closing.

#### Satisfaction of Licensing Requirements Maintained

Execution of the acquisition disclosed in the Form A would have no effect on the ability of any participating insurers to maintain their existing licenses to write the lines of insurance for which they are presently licensed.

#### Effect on Competition

The Wisconsin Commissioner of Insurance Annual Report of Business for 2010 notes that the combined writings of the Allstate Insurance Group comprise approximately 3.6% of the Wisconsin auto market, and the combined auto lines of the Esurance Group are approximately 0.4% of the Wisconsin auto market. Given the market shares of the respective parties to the Proposed Transaction and the highly competitive Wisconsin auto marketplace, it does not appear the Proposed Transaction will have any significant anti-competitive effect on any market in Wisconsin.

#### Future Plans after the Change in Control

Other than the changes to the affiliated agreements previously discussed, the Applicants' have no present plans or proposals to: (i) liquidate the Esurance Domestic Insurers; (ii) sell their assets (other than sales of assets as may be contemplated in the ordinary course of the Esurance Domestic Insurers business) or merge them with any person; or (iii) make any other major changes in their business operations or corporate structure or management. Concurrent with the execution of the Stock Purchase Agreement, EHI and AFI entered into employment agreements with certain members of their management teams, several of whom serve as directors and executive officers of the Esurance Domestic Insurers. These agreements are intended to ensure continuity of management and, to that end, each run for three year terms.

#### Financial Soundness of Prospective Affiliates

The Allstate Corporation is the largest publicly held personal lines insurer in the United States. Allstate is also the 2<sup>nd</sup> largest personal property and casualty insurer in the United States. According to A.M. Best, which provides the Allstate Insurance Group a financial rating of A+ (Superior), it is the nation's 16<sup>th</sup> largest issuer of life insurance business on the basis of 2009 ordinary life insurance in force and 21<sup>st</sup> largest on the basis of 2009 statutory admitted assets. Allstate has four business segments:

- Allstate Protection Segment – principally private passenger auto and homeowners insurance, primarily through agencies
- Allstate Financial Segment – principally life insurance, retirement and investment products, and voluntary accident and health insurance products
- Corporate and Other Segment – comprised of holding company activities and certain non-insurance operations

- Discontinued Lines and Coverages Segment – includes results from insurance coverage that Allstate no longer writes and results of certain commercial and other business in run-off.

As of December 31, 2010, The Allstate Corporation and Subsidiaries Consolidated Statements of Operations and Financial Position reported the following (in millions):

	<u>2010</u>	<u>2009</u>
Total Assets	\$130,874	\$132,652
Total Liabilities	\$111,830	\$115,931
Total Equity	\$19,044	\$16,721
Net Income	\$928	\$854

The financial condition of The Allstate Corporation, individually, and the holding company system taken as a whole, is unlikely to jeopardize the financial stability of the Esurance Domestic Insurers or to prejudice the interests of their respective Wisconsin policyholders.

Competence and Integrity of Prospective Management

The board of directors of The Allstate Corporation is composed of the following eleven individuals:

Name and Residence	Principal Occupation
F. Duane Ackerman Atlanta, GA	Retired
Robert Beyer Los Angeles, CA	Chairman Chaparral Investments LLC
W. James Farrell Lake Forest, IL	Retired
Jack Greenberg Highland Park, IL	Chairman InnerWorkings & Western Union Company
Ronald LeMay Kansas City, MO	Chairman Aircell Corporation
Andrea Redmond Wayne, IL	Independent Consultant
H. John Riley, Jr. Houston, TX	Retired
Joshua Smith North Bethesda, MD	Chairman and Managing Partner Coaching Group, LLC

Judith Sprieser Marshall, VA	Retired
Mary Alice Taylor Point Clear, AL	Independent Business Executive
Thomas Wilson Chicago, IL	Chairman, President, and CEO Allstate Insurance Company

The senior officers of The Allstate Corporation are as follows:

<b>Name</b>	<b>Office</b>
Thomas Wilson	Chairman, President, & Chief Executive Officer
Don Civgin	Executive Vice President & Chief Financial Officer
Michele Coleman Mayes	Executive Vice President & General Counsel
Samuel Henry Pilch	Senior Group Vice President & Controller
David Harper	Senior Vice President
Mario Rizzo	Senior Vice President & Treasurer
Mary McGinn	Senior Vice President, Deputy General Counsel & Secretary

The managers of Allstate Insurance Holdings, LLC are as follows\*:

<b>Name</b>
Thomas Wilson
Don Civgin
Joseph Lacher Jr.**

The senior officers of Allstate Insurance Holdings, LLC are as follows:

<b>Name</b>	<b>Office</b>
Thomas Wilson	Chairman
Don Civgin	Chief Financial Officer
Samuel Pilch	Group Vice President & Controller
David Harper	Vice President
Mary McGinn	Vice President and Secretary
Jeffrey McRae	Vice President and Assistant Treasurer
Mario Rizzo	Vice President and Treasurer
Steven Verney	Vice President and Assistant Treasurer

\*Allstate Insurance Holdings, LLC is a limited liability corporation and therefore does not have Directors. In lieu of Directors, a list of Managers was provided.

\*\*Mr. Lacher left Allstate in mid-July 2011. The third AIH manager position is currently vacant.

1. The Form A filing was prepared in a format that complies with s. Ins 40.02, Wis. Adm. Code. The information contained in the Form A filing and its supplements are sufficient to the transaction.
2. The plan would not violate the law or be contrary to the interests of the Esurance Domestic Insurers or their policyholders.
3. After the acquisition of control, the Esurance Domestic Insurers will not experience a change that would cause them to become unable to satisfy the licensure requirements to write the lines of insurance business for which they are presently licensed.
4. It is evident that this transaction will not create a monopoly or substantially lessen competition in any type or line of insurance in Wisconsin.
5. The financial condition of The Allstate Corporation, individually, and its holding company system taken as a whole, are unlikely to jeopardize the financial stability of the Esurance Domestic Insurers, or to prejudice the interests of their respective Wisconsin policyholders.
6. The plan results in a change in control for the Esurance Domestic Insurers. The Applicants have no present plans or proposals for any of the Esurance Domestic Insurers to declare an extraordinary dividend (other than the one approved at closing), to liquidate any of the Esurance Domestic Insurers, to sell their assets or merge any of them with any person or persons or to make any other changes in the corporate structure or management of any of the Esurance Domestic Insurers.
7. The competence and integrity of the persons who would control the operations of the Esurance Domestic Insurers are such that it is in the interest of their respective policyholders and of the public to permit the proposed plan.

## RECOMMENDATION

It is recommended that the plan for the acquisition of control of Esurance Insurance Company and Esurance Insurance Company of New Jersey by The Allstate Corporation and Allstate Insurance Holdings, LLC, be approved. Concurrently with the Closing, it is recommended that the affiliated agreements be non-disapproved, the request for an extraordinary dividend be approved and the Stipulations and Orders be rescinded (Case No. 06-C30500 and Case No. 06-C30104).