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TO: Amy J. Malm, Hearing Examiner
Elena V. Vetrina, Insurance Financial Examiner – Chief

FROM: Michael A. Mancusi-Ungaro, Insurance Financial Examiner – Advanced (Licensing)
Steven J. Junior, Insurance Program Manager

SUBJECT: The Acquisition of IDS Property Casualty Insurance Company and its Subsidiary
Ameriprise Insurance Company by American Family Insurance Mutual Holding Company
and AmFam, Inc. (Case No. 19-C43066)

The purpose of this Memo is to summarize the results of OCI's analysis with respect to the above-referenced Form A filing performed in accordance with the criteria set-forth in s. 611.72, Wis. Stat.

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Executive Summary

This Form A statement concerns the publicly announced acquisition of IDS Property Casualty Insurance Company and its subsidiary Ameriprise Insurance Company (together "IDS") by American Family Insurance Mutual Holding Company ("AFIMHC") and AmFam, Inc. (together with AFIMHC, the "Applicants"). The Applicants filed the required Form A documents on April 12, 2019. The Applicants' goal with this transaction is to acquire a desirable customer base and distribution channel that compliments its existing lines of business. The Applicants' future plans for the IDS insurance operations are to change little while optimizing the back-office operations with the benefit of the American Family Group's operations and access to capital to support future growth. The only future concern is American

Family's dominant market share position in Wisconsin homeowners and auto insurance whereby they will control nearly 20% of the market (based on 2017 numbers) in three key lines: Homeowners Multiple Peril, Other Private Passenger Auto Liability, and Private Passenger Auto Physical Damage. With each successive acquisition of insurance operations and the projected growth of both IDS and American Family, Wisconsin's homeowners and auto insurance markets are consolidating. Future Form E filings might start raising competitive concerns as the threshold for prima facie evidence of anticompetitive mergers becomes smaller and smaller.

The Transaction

The Stock Purchase Agreement between Ameriprise Financial, Inc. (the Seller) and AmFam, Inc. (the Buyer) was dated April 1, 2019. In addition to normal and customary terms, Article II of the Stock Purchase Agreement outlines the mechanics of this complex transaction. Here is a summary of the key terms:

1. **§ 2.1 Purchase and Sale:** IDS's Estimated Statement of Net Worth must be delivered four days before Closing. The Estimated Statement of Net Worth is a document that determines: 1) the estimated amount of the Adjusted Statutory Net Worth and 2) a calculation of the estimated purchase price. Both figures are determined as of the first business day of the next month following the closing date.
2. **§ 2.2 Closing:** The Closing shall take place (i) at the offices of Skadden, Four Times Square, New York, New York 10036 at 9:00 a.m., CST, on the first Business Day of the month immediately following the date on which the last of the conditions set forth in Article VI (other than those conditions that by their terms are to be satisfied at the Closing, but subject to the satisfaction or waiver of those conditions at such time) is satisfied or waived by the party entitled to waive the same; provided that if the date the last of the conditions is satisfied or waived is less than three (3) Business Days prior to the first Business Day of the month, then the Closing shall take place on the first Business Day of the second following month, or (ii) in, at or on such other manner, location, and/or date as Seller and Purchaser may mutually agree in writing. The date on which the Closing occurs is referred to herein as the "Closing Date". The parties agree that the effectiveness of the Closing shall be as of 12:00:01 a.m., CST, on the Closing Date. Notwithstanding the foregoing, the Closing Date shall not be sooner than the earlier of (A) the date on which Purchaser has established core human resources systems or services (for payroll and benefits coverage) for the Acquired Companies reasonably necessary to carry on the operation of the business of the Acquired Companies, which date shall in no event be later than December 31, 2019 (the "HR Conversion") or (B) October 1, 2019.

The Insurers

American Family Insurance Mutual Holding Company ("AFIMHC" or an Applicant) is a Wisconsin domiciled mutual holding company. AFIMHC is a Wisconsin mutual insurance holding company incorporated under Chapter 644 of the Wisconsin Statutes on January 1, 2017, in connection with the simultaneous conversion of American Family Mutual Insurance Company, S.I. ("AFMIC SI") from a Wisconsin domestic mutual insurance company to a Wisconsin stock insurance company that is an indirect, wholly-owned subsidiary of AFIMHC. AFIMHC's principal business is to operate as the ultimate parent and mutual holding company for purposes of owning, directly or indirectly, the issued and outstanding shares of capital stock of its direct and indirect downstream subsidiaries (the "American

Family Insurance Group”). AFIMHC is controlled by its members, consisting of all the policyholders of AFMIC SI, American Standard Insurance Company of Ohio and American Family Insurance Company.

IDS Property Casualty Insurance Company was incorporated on December 15, 1972 under the laws of Wisconsin. Business of the company was conducted under the name Wisconsin No-Fault Insurance Company, Inc. from inception until November 7, 1979 when the corporate title Wisconsin Employers Casualty Company was adopted. Wisconsin Employers Casualty Company was the surviving entity of the merger with IDS Reinsurance Company, effective May 31, 1987. Subsequent to the merger, the name of the company was changed to IDS Property Casualty Insurance Company.

IDS Property Casualty Insurance Company and its wholly owned subsidiary, Ameriprise Insurance Company, are under the ultimate control of Ameriprise Financial, Inc. IDS Property Casualty Insurance Company and Ameriprise Insurance Company are stock insurance companies and conduct business under the trade name Ameriprise Auto & Home Insurance. Ameriprise Insurance Company cedes 100% of premium written to IDS Property Casualty Insurance Company. On a direct basis, the companies offer private passenger automobile coverage, homeowner's insurance and umbrella products to the clients of non-related affinity partnerships, the largest of which is Costco Wholesale Corporation. It also markets personal lines products to its affiliated company clients at Ameriprise Financial Advisors and on the internet.

The Identity and Background of the Applicants

The names and current business address of the Applicants are:

American Family Insurance Mutual Holding Company and AmFam, Inc.
6000 American Parkway
Madison, Wisconsin 53783

AFIMHC Officers

Name	Title
Jack C. Salzwedel	CEO and Chairman of the Board of Directors
Daniel J. Kelly	Chief Financial Officer, Treasurer
David C. Holman	Chief Strategy Officer and Secretary
William B. Westrate	President
Telisa L. Yancy	Chief Operating Officer – American Family Agency
Peter B. Settel	Enterprise Chief Technology Officer
Gerry W. Benusa	Chief Sales Officer, Vice President
Peter C. Gunder	Chief Business Development Officer, Vice President
David A. Graham	Chief Investment Officer, Vice President
William Todd Fancher	Chief People Officer
Asya S. Alexandrovich	Chief Legal Officer
Brenda L. Koenig	President, Commercial Farm/Ranch
Mary Anne Theilen	President, Personal Lines
Richard M. Steffen	President, Life
Ann F. Wenzel	Assistant Secretary
Troy P. Van Beek	Assistant Treasurer
May D. Vang	Assistant Treasurer

AFIMHC Directors

Name and Residence	Principal Occupation
Jack C. Salzwedel Middleton, Wisconsin	Chairman and Chief Executive Officer American Family Insurance Mutual Holding Company
Christine M. Cumming Brooklyn, New York	Retired First Vice President & Chief Operating Officer Federal Reserve Bank of New York
Londa J. Dewey Madison, Wisconsin	President QTI Management Services, Inc. d/b/a The QTI Group
Fabian J. Fondriest Concord, Massachusetts	President and Chief Executive Officer Homesite Group Incorporated
Leslie A. Howard Madison, Wisconsin	Senior Advisor to the Chief Executive Officer United Way Worldwide
Idalene F. Kesner Bloomington, Indiana	Dean and Professor of Strategic Management Indiana University School of Business
Rakesh Khurana Newton, Massachusetts	Dean Harvard College
Michael M. Knetter Mequon, Wisconsin	President and Chief Executive Officer University of Wisconsin Foundation
Eliot G. Protsch Naples, Florida	President Wapsie Investment and Advisory, LLC
Paul S. Shain Verona, Wisconsin	President and Chief Executive Officer Singlewire Software, LLC
Thomas M. Tefft Palm Harbor, Florida	Retired President, Neuromodulation Medtronic, Inc.
William B. Westrate Sun Prairie, Wisconsin	President American Family Insurance Mutual Holding Company
Thomas J. Zimbrick Madison, Wisconsin	Chief Executive Officer and Board Member Zimbrick, Inc.
Thomas M. Van Berkel Jacksonville Beach, Florida	Chairman, President and Chief Executive Officer Main Street America Group Inc. and its Subsidiaries

The officers and directors of AmFam, Inc. are a subset of the foregoing officers and directors of AFIMHC. Specifically, the officers of AmFam, Inc. are William B. Westrate (President), Daniel J. Kelly (Chief Financial Officer and Treasurer), David C. Holman (Chief Strategy Officer and Secretary), Troy Van Beek (Assistant Treasurer), May D. Vang (Assistant Treasurer) and Ann F. Wenzel (Assistant Secretary). The directors of AmFam, Inc. are Jack C. Salzwedel (Chair), David C. Holman, Daniel J. Kelly and William B. Westrate.

During the past five (5) years, all the above-named individuals were employed by the organization with which they are currently affiliated, except for Ms. Howard, who was employed as President and Chief Executive Officer of the United Way of Dane County until 2015. A review of the confidential biographical affidavits for the above listed officers and directors did not raise any concerns.

Nature, Source and Amount of Consideration

The Applicants will purchase IDS pursuant to the stock purchase agreement which provides a method of determining the actual purchase price of IDS. As stated in the Form A and in the Stock Purchase Agreement, AmFam, Inc. will pay \$280,010,839 plus the Adjusted Statutory New Worth of IDS in exchange for all of the 2,000,000 issued and outstanding shares of IDS with a par value per share of \$2.50.

AFMIC SI, the direct Parent of AmFam, Inc. and an indirect wholly-owned subsidiary of AFIMHC, will finance the Purchase Price through a mix of cash on hand, which is currently anticipated to approximate fifty million dollars (\$50,000,000), liquidation or maturity of short-term investments, which is currently anticipated to approximate five hundred million dollars (\$500,000,000), and a fixed rate loan (the "Advance") from the Federal Home Loan Bank of Chicago ("FHLB") (the "Financing"), which is currently anticipated to approximate five hundred million dollars (\$500,000,000). AFMIC SI has been a member of FHLB since 2009. Any Financing will be fully collateralized by AFMIC SI by certain of AFMIC SI's existing assets, as described below, which will not include the stock of any insurer and will not include any assets of any insurer other than AFMIC SI.

As an insurance organization with approximately \$9 billion in group equity, as determined on a GAAP basis, AFIMHC has the ability and flexibility to pay the Purchase Price from its existing funds but is utilizing the Financing to more efficiently deploy its existing capital. Neither IDS Property Casualty Insurance Company nor Ameriprise Insurance Company will act as a borrower or guarantor on the Financing, nor will any of their assets be pledged as security or collateral for the Financing. The Financing will be repaid from the general cash flows of AFMIC SI, which has more than \$6.9 billion in policyholders' surplus determined on a statutory basis as of June 30, 2019.

Pursuant to the various agreements governing the Financing, the interest rate on the Advance and the maturity of the loan will be based upon market conditions, eligible securities and management discretion on the date the Advance is drawn. For illustrative purposes, the rate for a 30-year, fixed rate advance on March 28, 2019 was 3.61%.

Precise and complete terms and conditions governing the Financing are provided for in agreements between FHLB and AFMIC SI. These agreements govern all transactions between FHLB and AFMIC SI. Key agreements and terms and conditions in those agreements related to advances include, without limitation:

Borrowing Capacity Memo: This Memo issued by FHLB sets forth FHLB's commitment to provide AFMIC SI with immediate access to FHLB's credit products, on a secured basis, in an amount up to twenty times its capital stock and no greater than the lesser of 25% of AFMIC SI's admitted assets or 100% of AFMIC SI's capital and surplus. As of December 31, 2018, AFMIC SI has admitted assets of \$17 billion and policyholders' surplus of \$6.3 billion. Further, AFMIC SI has a thirty (30) year \$500 million advance drawn upon the FHLB credit commitment, due November 20, 2043. AFMIC SI has the corporate authority to draw down up to another \$500,000,000 from this facility for this transaction, subject to the terms and conditions of the additional agreements described below. A copy of this Memo is attached as Exhibit 4(a)(i) to this Form A.

Master Transactions Agreement: This agreement describes the terms, fees and procedures relating to the deposit account AFMIC SI is required to maintain at FHLB as well as wire transfer procedures and obligations relating to wire transfers. Proceeds from advances are initially deposited into this account. A copy of this Master Transactions Agreement is attached as Exhibit 4(a)(ii) to this Form A.

Advances, Collateral Pledge, and Security Agreement: Some of the key provisions of this agreement define collateral requirements and covenants for FHLB advances. FHLB advances are required to be 100% collateralized. Eligible collateral includes, but is not limited to, U.S. Treasuries, U.S. Agency Debt, municipal debt and high-quality mortgage loans. AFMIC SI has the right to exchange collateral that is initially pledged at the time an advance is drawn with other eligible collateral subject to FHLB rules. AFMIC SI intends to pledge U.S. Treasuries, U.S. Agency Debt, municipal debt and high-quality mortgage loans it currently holds in its investment portfolio as collateral at the time the Advance is drawn. This agreement also defines a variety of covenants and financial and operational reporting requirements. Again, neither IDS Property Casualty Insurance Company nor Ameriprise Insurance Company will not act as borrowers or guarantors on the Financing, nor will any of their assets be pledged as security or collateral for the Financing. A copy of this Advances, Collateral Pledge and Security Agreement is attached as Exhibit 4(a)(iii) to this Form A.

Members Products Guide: Some of the key provisions of this guide include; pricing, interest billing and collection, prepayment terms, wire transfer security and other product (e.g. advances) terms. Pages 6 and 55-56 of this guide define prepayment policies and calculations relating to a "symmetrical prepayment" feature AFMIC SI may apply to the Advance. A copy of this Member Products Guide is attached as Exhibit 4(a)(iv) to this Form A.

Safekeeping Agreement: The Safekeeping Agreement defines the terms and conditions of custodial services FHLB provides to its members. AFMIC SI intends to use FHLB as Custodian for collateral pledged for the Advance. AFMIC SI is also allowed to use third party custodians provided it enters into a Tri-Party Custodial Control Agreement between AFMIC SI, FHLB and the third-party custodian. A copy of this Safekeeping Agreement is attached as Exhibit 4(a)(v) to this Form A.

Other Agreements: AFMIC SI has entered into additional agreements with FHLB that may be indirectly related, or not related, to the planned long-term Advance. These agreements have not been included with this filing but are available upon request. They include:

1. Irrevocable Letter of Credit Reimbursement agreement. Defines terms that apply to Letter of Credit transactions with FHLB.
2. EBanking Services Agreement. Primarily describes operational and security procedures over the use of FHLB's EBanking System as well as

indemnifications and limitations of liability regarding AFMIC SI's use of the system.

3. Member Products and Credit Policy. Defines availability of credit to FHLB's members, underwriting standards, collateral eligibility and valuation and fees relating to FHLB's products.

The Applicants state that the Purchase Price is a result of arms' length negotiations between the parties and both the Applicants and Seller were separately represented by independent financial and legal advisors.

The Applicants Future Plans

Per the Form A: "The Applicants have no present plans or proposals to cause any of the Domestic Insurers to declare an extraordinary dividend, liquidate, sell their assets, or merge with any person or persons, or otherwise make any material changes to the business operations or corporate structure or management of the Domestic Insurers as a result of, or in connection with, the Proposed Acquisition, including no current plans to reduce the Wisconsin workforce, relocate the Wisconsin operations, eliminate or non-renew products or territories, or eliminate any distribution channels of the Domestic Insurers."

Following the proposed acquisition, the Applicants' plan for the insurer is to change little of how IDS' products are sold. If the Applicants can execute the business plan, IDS will experience between 5% and 10% annual growth in direct premiums written for both its home and auto business. That growth, coupled with the Applicants' expected increase in IDS' investment portfolio yield because of the Applicants' ability to allocate nearly 30% of the investment portfolio to common stock and risk assets, indicate that wholesale changes to IDS' current business practices are not expected. The Applicants expect a nearly 4 percentage point improvement in IDS' current net expense ratio of 18.5% due to the implementation of further efficiencies in fixed expense and corporate support.

The 611.72 (3) Standard

Wisconsin Statute s. 611.72 (3) (am) creates a five-part test to for the Commissioner to use when evaluating the merger or other acquisition of control of a domestic stock insurance company. It reads, in relevant part:

(am) The commissioner shall approve the plan if the commissioner finds...that it would not violate the law or be contrary to the interests of the insureds of any participating domestic corporation or of the Wisconsin insureds of any participating nondomestic corporation and that:

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

2. The effect of the merger or other acquisition of control would not be to create a monopoly or substantially to lessen competition in insurance in this state;
3. The financial condition of any acquiring party is not likely to jeopardize the financial stability of the domestic stock insurance corporation or its parent insurance holding corporation, or prejudice the interests of its Wisconsin policyholders;
4. The plans or proposals which the acquiring party has to liquidate the domestic stock insurance corporation or its parent insurance holding corporation, sell its assets, merge it with any person or make any other material change in its business or corporate structure or management, are fair and reasonable to policyholders of the domestic stock insurance corporation or in the public interest; and
5. The competence and integrity of those persons who would control the operation of the domestic stock insurance corporation or its parent insurance holding corporation are such that it would be in the interest of the policyholders of the corporation and of the public to permit the merger or acquisition of control.

These five requirements are analyzed below.

s. 611.72 (3) (am)1: After reviewing the documents provided by the Applicants in their Form A filing, OCI Staff believes that the Applicants are able to satisfy s. 611.72 (3) (am)1. This proposed acquisition does not raise concerns with the OCI because the Applicants are acquiring a high quality business that is complimentary to its existing businesses.

s. 611.72 (3) (am)2: It is OCI's opinion that a Form E challenge is not necessary at this time as this proposed merger involves multiple products and many diverse geographic regions in which competition is robust. However, for three lines sold in Wisconsin, American Family Insurance Group's year-end 2017 combined market shares are approaching high levels of concentration. For example, in Homeowner's Multiple Peril, the American Family Insurance Group controls approximately 21.56% and IDS' combined market share for that line is 0.49% resulting in a combined expected market share of 22.05%. In Other Private Passenger Auto Liability American Family has 18.85% of the market and IDS has 0.27% for a combined market share of 19.12%. Finally, in Private Passenger Auto Physical Damage, American Family control 18.68% and IDS has 0.34% for a combined market share of 19.02%.

The combined market share in Other Liability will not exceed 12% or increase by 2% post acquisition.

OCI's examination of the potential competitive effects concluded that approving the acquisition would not violate the competitive standards set forth in s. Ins 40.025 (4), Wis. Adm. Code, but subsequent acquisitions might change this determination as market concentrations are increasing with each subsequent transaction as well as organic growth.

s. 611.72 (3) (am)3: Paragraph 3 requires that the financial condition of any acquiring party is not likely to jeopardize the financial stability of the domestic insurance corporation or its parent insurance corporation, or prejudice the interest of its Wisconsin policyholders. After reviewing the documents

provided by the Applicants, the concern that IDS would jeopardize the financial condition of the American Family Insurance Group was deemed minimal given both the American Family Insurance Group's and IDS's strong financial results in the past five years and the explicit statements of parental support but OCI will monitor compliance with s. 611.72 (3) (am)3 going forward.

s. 611.72 (3) (am)4: Paragraph 4 requires that the post-transaction plans to change the business structure be "fair and reasonable to policyholders of the domestic stock insurance corporation or in the public interest." Review of the Form A and its supporting documents raise no concerns that certain customers would be prejudiced post-transaction as the domestic insurer is in a strong financial position and the risk to customers is minimal given the implicit and explicit support pledged by the American Family Insurance Group. Compliance with s. 611.72 (3) (am)4 is expected and not a significant concern at this time.

s. 611.72 (3) (am)5: Paragraph 5 requires that OCI review the biographical affidavits of the proposed officers and directors of the Applicants and this review did not raise any concerns.

Conclusion

The acquisition of control of IDS Property Casualty Insurance Company and its wholly-owned subsidiary, Ameriprise Insurance Company, by American Family Insurance Mutual Holding Company and AmFam, Inc. should be approved