



State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

Scott Walker, Governor
Theodore K. Nickel, Commissioner

Wisconsin.gov

Exh # 24
Date 20 APR 2017
Case 17-C41664
Ins. Comm.

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DATE: March 20, 2017
TO: Rebecca L. Easland, Director of the Bureau of Financial Analysis and Examinations
FROM: Steven J. Junior, Insurance Examiner Supervisor
SUBJECT: In the Matter of the Acquisition of Control of Northwestern National Insurance Company of Milwaukee, Wisconsin by Sandell Holdings Ltd. (Case No. 17-C41664)

DESCRIPTION OF THE TRANSACTION

Overview

Sandell Holdings Ltd. filed a Form A, "Statement Regarding the Acquisition of Control or Merger with a Domestic Insurer", dated January 10, 2017. Sandell Holdings Ltd. proposes to acquire control of Northwestern National Insurance Company of Milwaukee, Wisconsin (hereinafter also, "NNIC") through the purchase of all the Class B shares of SOBC Holdings Ltd., the United Kingdom based ultimate parent of NNIC, which represents 50% of the issued and outstanding capital stock. The Class A shares, representing the other 50% of the ownership of SOBC Holds Ltd. will remain with the executive management team: Stephanie Mocatta (through SOBC Ltd.), Richard Whatton (through SOBC Ltd.), Brian Johnston (through Pentland Services LLC), Harry Witcher and Thomas F. X. Hodson. SOBC Holdings Ltd. underwent an administrative change late last year whereby it changed its status from a United Kingdom public limited company to simply a limited company, as is denoted by the change of name from SOBC Holdings plc to SOBC Holdings Ltd.

The original investors in the Class B shares of SOBC Holdings Ltd. acquired units, with each unit representing 83,400 Class B shares (at one pence per share) and £49,166 of 10% loan notes maturing in 2019. Each unit was sold for £50,000. The current Class B share investors currently hold 4,170,000 Class B shares and £2,458,300 in Loan Notes. As part of this transaction, Sandell Holdings Ltd. is acquiring all of the Class B shares and the associated loan notes for £55,004 per unit. Additionally, as part of the transaction, the 10% loan notes will be replaced with 0.75% loan notes maturing in 2021. The total amount to be paid by Sandell Holdings Ltd. for all of the Class B shares and associated loan notes is £3,567,503.48.

Sandell Holdings Ltd. was incorporated under the laws of Bermuda on December 18, 2014 and through its wholly-owned Bermuda domiciled subsidiary, Sandell Re Ltd. provides reinsurance for captives, insurance and reinsurance companies, managing general agencies, risk retention groups, run-off companies and other insurance-related companies requiring surplus relief, risk capacity and risk protection by assuming low volatility loss portfolio transfers and quota share business. Sandell Re Ltd. is licensed as a Class 3A reinsurer pursuant to The Insurance Act 1978 and is also registered as a Segregated Accounts Company under the Segregated Accounts Companies Act 2000. Class 3A insurers are small commercial insurers with a required minimum surplus of \$1,000,000. As part of its original Business Plan filed with Bermuda, Sandell Re conducted business as part of a panel of participating reinsurers supported by and providing reinsurance to Multi Strat Re Ltd., a licensed Class 3 Bermuda reinsurance company, for all classes of property and casualty business. During 2016, Sandell Re terminated its relationship with Multi Strat Re Ltd. in favor of an independent underwriting platform. Working closely with the Bermuda insurance regulators, Sandell Re has significantly revised its Business Plan, hiring an on-island underwriting team

and leasing new office space in Hamilton, Bermuda. Additionally, in October 2016, Sandell Holdings Ltd. was approved for listing on the Bermuda Stock Exchange.

It is anticipated that the investment expertise of Sandell Holdings Ltd. and its affiliates will be of benefit to SOBC Holdings Ltd. and its affiliates, including Northwestern National Insurance Company of Milwaukee, Wisconsin. Lars E. T. Sandell, a citizen of Sweden, indirectly owns 97.62% of Sandell Holdings Ltd., while Laurent Sebah, a citizen of France, indirectly owns the remaining 2.38%.

Scope of Wisconsin's Regulatory Concern

Section 611.72, Wis. Stat., requires the Office of the Commissioner of Insurance 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.

The holding company system of the proposed acquirer, Sandell Holdings Ltd. (hereinafter also, "Sandell Group") does not currently own or control any insurers domiciled in the United States.

The holding company system led by SOBC Holdings Ltd. (hereinafter also, "SOBC Group") included four insurers domiciled in the United States, Northwestern National Insurance Company of Milwaukee, Wisconsin (Wisconsin), Compass Insurance Company (New York), SOBC Alpha Insurance Company Ltd. (Connecticut) and PIA Professional Liability Captive Insurance Company (Montana). Except for SOBC Alpha Insurance Company Ltd., the other insurers owned by the SOBC Group in the United States are in run-off.

Acquisition Agreement

There is an "Agreement to buy B Shares and Loan Notes issued by SOBC Holdings Limited" (hereinafter also the "Acquisition Agreement"), whereby Sandell Holdings Ltd. shall acquire all 4,170,000 Class B shares of SOBC Holdings Limited and £2,458,300 in associated loan notes bearing interest at 10% and maturing in 2019 from the current investors in these securities for total consideration of £3,567,503.48. The acquired loan notes will be exchanged for £2,458,300 in loan notes bearing interest at 0.75% and maturing in 2021. Regulatory approvals, in some form, are required for completion of the proposed transaction from the U.S. states of Connecticut, New York, and Wisconsin and from Bermuda. If the agreement is not consummated before December 31, 2017, Sandell Holdings Ltd. shall pay a non-completion payment of £1,109,203.48 to SOBC Holdings Limited, which would be distributed to the Class B shareholders. The Acquisition Agreement is governed under the laws of England.

OBSERVATIONS BASED ON REVIEW OF DOCUMENTS AND ON 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

Review of the Form A, with due consideration to supplementary information filed in response to examiner inquiries, discloses no basis for denial of the application on a point of law.

I can find no basis on which the proposed acquisition, as disclosed in the Form A and its supplementary filings, should not be regarded as reasonable and fair to each participating insurer and to each participating insurer's policyholders, within the scope of Wisconsin's regulatory concern.

Satisfaction of Licensing Requirements Maintained

Execution of the transactions disclosed in the Form A according to the plan indicated would have no effect on the ability of Northwestern National Insurance Company of Milwaukee, Wisconsin to maintain their existing licenses to write the lines of insurance for which they are presently licensed.

Effect on Competition within the Wisconsin Insurance Marketplace

Sandell Holdings Ltd. does not own any insurance companies domiciled or licensed in the United States at this time. Accordingly, this transaction will not create a monopoly or substantially lessen competition in any type or line of business in Wisconsin.

Future Plans under Affiliation

The employees of Northwestern National Insurance Company of Milwaukee, Wisconsin will remain responsible for the insurers' day-to-day operations. The books and records of NNIC will remain in West Chester, Ohio. There are no current plans to change the officers of NNIC, who will continue to manage their respective areas of business responsibility. There are no plans for Northwestern National Insurance Company of Milwaukee, Wisconsin to declare any dividend, whether ordinary or extraordinary, to liquidate the insurer, to sell the insurer's assets or to merge it with any person or persons or to make any other material change in its corporate structure.

The management of SOBC Group will continue to pursue its existing plan for Northwestern National Insurance Company of Milwaukee, Wisconsin, which includes streamlining the run-off management, settling claims where possible, reducing costs and attempting to maintain, or increase, solvency.

The plan for the acquisition of control does not appear to be adverse to the policyholders of Northwestern National Insurance Company of Milwaukee, Wisconsin, or to conflict with the public interest.

Financial Soundness of Prospective Affiliates

Sandell Holdings Ltd. was incorporated on December 18, 2014 under the laws of Bermuda. As of September 30, 2016, Sandell Holdings Ltd. reported, in the currency of Bermuda, assets of \$90,011,888, liabilities of \$36,405,755, and shareholders' equity of \$53,606,133. It has been the standing policy of Bermuda to maintain its currency, the Bermuda dollar, at parity with the U.S. dollar.

There is no expectation that Sandell Holdings Ltd. or any of its affiliates will make any contribution of capital or surplus to NNIC.

The financial condition of Sandell Holdings Ltd., individually, and the Sandell Group, taken as a whole, are unlikely to jeopardize the financial stability of any participating domestic insurer, or to prejudice the interests of their respective Wisconsin policyholders.

Change in Control

The Form A will result in a change in control for NNIC. The closing of the transactions contemplated by the Acquisition Agreement would result in a change in the ultimate controlling person of NNIC. Following a successful completion of the proposed acquisition, NNIC's present ultimate parent, SOBC Holdings Ltd. will become a 50% owned subsidiary of Sandell Holdings Ltd. While SOBC Holdings Ltd. will remain in the succession of control of NNIC, Lars E. T. Sandell will become an ultimate controlling person.

Lars E. T. Sandell is an owner and director of Sandell Holdings Ltd. and owns and exercises control over 97.62% of that corporation through two corporate entities domiciled in the British Virgin Islands, Castlerigg

Master Investments and Castlerigg International Ltd. A minority interest of 2.38% is held by Laurent Sebah through his wholly-owned corporation, Sebah Finance SARL. The Class A shares, representing 50% of the ownership of SOBC Holdings Ltd. will continue to be held by the executive management team: Stephanie Mocatta (through SOBC Ltd.), Richard Whatton (through SOBC Ltd.), Brian Johnston (through Pentland Services LLC), Harry Witcher and Thomas F. X. Hodson. Pursuant to s. 600.03(13), Wis. Stat., there is a rebuttable presumption of control if a person directly or indirectly owns, holds with the power to vote, or holds proxies to vote more than 10% of the voting securities of another person. Due to the various disparate and changing ownership interests of Mr. Sandell and the executive management team, I believe that special reporting requirements should apply. A copy of the Stipulation and Order in the Matter of Case No. 17-C41674 is included among the hearing exhibits and is recommended as being required as a condition for approval of the proposed acquisition of control.

Competence and Integrity of Prospective Management

Sandell Holdings Ltd. provided signed, original biographical affidavits for its officers and directors, as well as proposed new directors of NNIC. Review of the composition of the board and management of Sandell Holdings Ltd. and the proposed new directors of NNIC discloses no basis for disapproval of the Form A.

Summary of Observations

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, together with supplementary information obtained by OCI, is sufficient to the transaction.
2. The plan would not violate the law or be contrary to the interests of NNIC or its policyholders.
3. After the acquisition of control, NNIC will not experience a change that would cause it to become unable to satisfy the requirements for the issuance of a license to write the lines of insurance for which it is presently licensed.
4. 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 Sandell Holdings Ltd., individually, and the Sandell Group, taken as a whole, are unlikely to jeopardize the financial stability of any participating domestic insurer, or to prejudice the interests of their respective Wisconsin policyholders.
6. The plan results in a change in control for NNIC. The plan does not appear to be adverse to the policyholders of NNIC, or to conflict with the public interest.
7. The competence and integrity of the persons who would control the operation of NNIC are such that it is in the interest of the policyholders of these insurers and of the public to permit the proposed plan.

RECOMMENDATION

I recommend that the plan for the acquisition of control of Northwestern National Insurance Company of Milwaukee, Wisconsin by Sandell Holdings Ltd. be approved, if it is simultaneously ordered that:

- (1) Northwestern National Insurance Company of Milwaukee, Wisconsin, Thomas F. X. Hodson, Lars E. T. Sandell, Sandell Holdings, Ltd., Stephanie C. Mocatta, Richard P. Whatton, Harry M. Witcher, and Brian Johnston shall consent to the Stipulation and Order in Case No. 17-C41674.

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- (2) Northwestern National Insurance Company of Milwaukee, Wisconsin shall file the Investment Management Agreement with Sandell Asset Management Corp. on Form D with the OCI.