

Mancusi-Ungaro, Michael - OCI

From: Eylward, Susan <Susan.Eylward@ngic.com>
Sent: Wednesday, April 17, 2019 4:55 PM
To: Mancusi-Ungaro, Michael - OCI
Cc: Weissmann, Jeffrey; Toman, William J. (William.Toman@quarles.com)
Subject: Response letter regarding Form A
Attachments: Response Letter dated 4-17-19 to Wisconsin OCI.pdf

Mr. Mancusi-Ungaro,

Please find attached our response to your letter dated April 12, 2019 regarding the Form A filed by Integon National Insurance Company. We are also mailing a binder to you via Fed Ex delivery that includes all of the attachments referenced in the attached letter due to their voluminous nature.

Thank you for your time with this matter.

Best regards,
Susan

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April 17, 2019

SENT BY ELECTRONIC TRANSMISSION AND FEDERAL EXPRESS TO:

Michael Mancusi-Ungaro, Insurance Financial Examiner – Advanced (Licensing Specialist)
State of Wisconsin/Office of the Commissioner of Insurance
125 South Webster Street
Madison, WI 53707-7873
Michael.MancusiUngaro@wisconsin.gov

RE: In the Matter of the Acquisition of Control of National Farmers Union Property and Casualty Company by Integon National Insurance Company, Inc. (Case No. 19-C43025)

Dear Mr. Mancusi-Ungaro,

We are in receipt of your letter dated April 12, 2019 regarding the Form A filed by Integon National Insurance Company (the "Applicant") on December 6, 2018. We have carefully considered your questions and information requests and set forth our responses below. Each response is numbered to correspond to the item set forth in your letter, which for convenience we have incorporated into this response letter. We are also mailing a binder to you via Fed Ex delivery that includes all of the Attachments referenced herein due to their voluminous nature.

We are committed to working with the Office of the Commissioner of Insurance ("OCI") to review any questions or issues you may have and move forward with the approval process. To that end, I would be pleased to come to your office in Madison during the week of April 29 together with other National General executives to address any concerns you may have. Please let me know so we can arrange timing details.

Please note that financial statements included as Attachments 1, 2 and 3 in the binder provided to you via Fed Ex contain confidential, personal nonpublic information that should be exempt from the public records law because (1) they are subject to the presumption that they are proprietary and confidential that applies to the Form A process and (2) the public interest favoring nondisclosure of the information outweighs the public interest in disclosure.

Pursuant to Wis. Admin. Code § Ins 40.05, the financial statements are required under Wis. Stat. § 601.42; therefore, OCI may withhold this information from public disclosure under Wis. Stat. § 601.465(1m)(a) and Wis. Admin. Code § Ins 6.13(3), and, moreover, because the financial statements are not public, it is presumed under Wis. Stat. § 601.465(1n)(a), notwithstanding the public records law, that they are proprietary and confidential and that the potential for harm and competitive disadvantage if they are made public by OCI outweighs the public interest in the disclosure of the information.

Second, in evaluating a public records request, OCI "must balance the strong public interest in disclosure of the record against the public interest favoring nondisclosure." Wisconsin Attorney General's March 2018 Wisconsin Public Records Law Compliance Guide ("Compliance Guide"), p. 31, citing *State ex rel. Journal Co. v. Cty. Court for Racine Cty.*, 43 Wis. 2d 297, 305, 168 N.W.2d 836 (1969). Of course, this balancing test is a fact-intensive inquiry that must be performed on a case-by-case basis, Compliance Guide at 31, citing *Kroeplin v. Wis. Dep't of Nat. Res.*, 2006 WIApp 227, ¶ 37, 297

Wis. 2d 254, 725 N.W.2d 286, and we are prepared to provide such an analysis in the event of a request for the financial statements. For now, suffice it to say that the strong public interest in protecting the privacy of individual financial statements, including from exposure to identity theft and financial fraud, outweighs the public interest in disclosing this personal financial information (especially given that the Applicant is owned by a company that files financial reports with the SEC and that OCI will be able to review the personal financial information to the extent it is relevant).

In line with these provisions, we respectfully request that OCI withhold the financial statements from the public. In the event that OCI receives a request for or a subpoena requiring production of the financial statements, we respectfully request that OCI immediately advise us of such request or subpoena while continuing to treat the financial statements as confidential, so that we may take the appropriate action to protect the financial statements.

1. Please provide the most recent five years of audited financial statements for the 2005 Michael Karfunkel Family Trust.

RESPONSE: Please see Attachment 1 (in the binder provided to you via Fed Ex) for the most recent three years of financial statements for the Michael Karfunkel Family 2005 Trust ("Family Trust"). Those are the only years of financial statements reasonably available for the Family Trust, which had no material assets prior to 2015.

2. Please identify the legal structure of the 2005 Michael Karfunkel Family Trust, i.e., is it also a grantor retained annuity trust?

RESPONSE: The Family Trust is an irrevocable trust formed under New York law. It is not a grantor retained annuity trust.

3. Please provide the most recent five years of audited financial statements for the Leah Karfunkel 2016 NG GRAT.

RESPONSE: Please see Attachment 2 (in the binder provided to you via Fed Ex) for the most recent three years of financial statements for the Leah Karfunkel 2016 NG GRAT ("NG GRAT"). The NG GRAT was first formed in 2016.

4. Please provide the most recent five years of audited financial statements for Leah Karfunkel.

RESPONSE: Please see Attachment 3 (in the binder provided to you via Fed Ex) for the most recent five years of financial statements for Leah Karfunkel.

5. Please identify any charitable trusts or similar legal entities that are related to the trusts identified in Questions 1 & 3, above.

RESPONSE: There are no charitable trusts or similar legal entities related to the Family Trust or the NG GRAT.

6. Are there any formal or informal relationships between the 2005 Michael Karfunkel Grantor Annuity Trust and:

a. The entity identified in Question 1?

RESPONSE: The Michael Karfunkel 2005 Grantor Retained Annuity Trust ("2005 GRAT") terminated after its 10-year trust term in 2015. Under its terms, its assets passed to the Family Trust in 2015.

b. The entity identified in Question 3?

RESPONSE: There is no formal or informal relationship between the 2005 GRAT and the entity identified in Question 3 (the NG GRAT).

c. Any proposed board member or officer identified in the Form A filed in this case?

RESPONSE: There is no formal or informal relationship between the 2005 GRAT and any proposed board member or officer identified in the Form A filed in this case.

d. Any charities?

RESPONSE: There is no formal or informal relationship between the 2005 GRAT and any charities.

e. Foreign corporations?

RESPONSE: There is no formal or informal relationship between the 2005 GRAT and any foreign corporations.

7. Have any of the GRATs under the control of any of the individuals identified in the Form A filed in this matter received any additional contributions or made donations to other entities?

RESPONSE: None of the GRATs under the control of any of the individuals identified in the Form A filed in this matter received any additional contributions or made donations to other entities.

a. Have any of the GRATs under the control of any of the individuals identified in the Form A entered into any loan agreements with other entities?

RESPONSE: The Family Trust is a borrower under a loan agreement with a third-party financial institution unrelated to National General Holdings Corp.

8. Please provide:

a. All consent decrees, stipulations and orders, or agreements relevant to the cases disclosed in responses to Biographical Affidavit Question 15(c).

RESPONSE: Please see Attachment 4 (in the binder provided to you via Fed Ex) for the consent decrees, stipulations and orders, or agreements relevant to the cases disclosed in responses to Biographical Affidavit Question 15(c).

b. Any pending settlement with regulators – insurance or otherwise – and the factual basis for the regulator's complaint.

RESPONSE: There are no pending settlements with regulators – insurance or otherwise.

- c. **The last four examination reports issued by the North Carolina Department of Insurance for the Applicant.**

RESPONSE: Please see Attachment 5 (in the binder provided via Fed Ex) for the last four examination reports issued by the North Carolina Department of Insurance for the Applicant.

- d. **The updated National General Holding Company's Enterprise Risk Management Program description and implementation documents for the years 2015, 2016, 2017 & 2018.**

RESPONSE: National General Holdings Corp. ("NGHC") undertakes regularly an enterprise risk management review to identify and evaluate risks and to develop plans to manage them effectively. The Risk Management Committee ("RMC") (which consists of senior management executives) reports directly to the Audit Committee and oversees the implementation and development of the ERM program. The RMC is chaired by the Chief Risk Officer and meets at least quarterly. NGHC's Chief Risk Officer is directly responsible for its enterprise risk management function and reports to the Chief Financial Officer and General Counsel, and for this purpose, directly to the Audit Committee. The Chief Risk Officer and his designees (the "Risk Team") receive regular reports from various operational groups and identify, measure, aggregate and manage key risk exposures within predetermined tolerance levels across the entire organization. The Risk Team also reviews, with the RMC, NGHC's general policies and procedures to ensure that effective systems of risk controls are maintained. The RMC also reviews and approves NGHC's annual Own Risk and Solvency Assessment (ORSA) report. Additionally, the Risk Team develops a process to ensure we optimize capital allocation and have sufficient capital to withstand stressed economic conditions. In fulfilling their risk management responsibilities, the Risk Team works closely with members of senior management, including the Chief Financial Officer, General Counsel and the Internal Audit department.

Please see Attachment 6 (in the binder provided to you via Fed Ex) for NGHC's Forms F for the years 2015, 2016, 2017 and 2018.

- e. **Please disclose any pending or initial investigations into the conduct of the Applicant, its intermediate or ultimate controlling entity.**

RESPONSE: There are no pending or initial investigations into the conduct of the Applicant, its intermediate or ultimate controlling entity.

9. **Please identify any individual listed as an officer, director, or board member of the Applicant, or its parent, or the 2005 Michael Karfunkel Family Trust who was involved in negotiating for or approving the purchase of Tower Group.**

RESPONSE: One of the eight members of the Board of Directors of NGHC, Barry Zyskind, the Chief Executive Officer of AmTrust, was involved in negotiations related to the purchase of Tower Group by ACP Re Ltd.

10. **Does the business plan filed in conjunction with the Form A contemplate the introduction of auto policies with a seven day coverage term to the Wisconsin insurance market?**

RESPONSE: The business plan filed in conjunction with the Form A does not contemplate the introduction of auto policies with a seven day coverage term to the Wisconsin insurance market.

11. In the past ten years, please indicate the number of times the Applicant or National General Holdings Corp. has had to file amended annual or quarterly financial statements.

RESPONSE: With respect to NGHC: NGHC filed an Amended 2015 Form 10-K in March, 2017. The original 2015 Form 10-K was filed in February, 2016. The Amendment was to amend and revise Item 9A of Part II, "Controls and Procedures," with respect to (1) our conclusions regarding the effectiveness of our disclosure controls and procedures and our internal control over financial reporting and (2) BDO USA, LLP's ("BDO") related attestation report due to a material weakness (the "2015 Material Weakness") in our internal control over financial reporting. There were no adjustments to any previously reported numbers in the 2015 Form 10-K and NGHC received an unqualified opinion.

During 2016, the 2015 Material Weakness was remediated, with the assistance of qualified consultants, by the development and implementation of additional documentation processes with enhanced precision and formalized review procedures. Management concluded that the 2015 Material Weakness did not have any impact on NGHC's financial position and the consolidated financial statements included in NGHC's Annual Report on Form 10-K for the year ended December 31, 2015 presented fairly, in all material respects, the financial position of NGHC as of December 31, 2015.

With respect to Integon National Insurance Company: Listed below are the amendments to the Integon National annual statements for the past 10 years. None of the amendments were related to a change in the balance sheet, income statement or cash flows of Integon National Insurance Company.

Year	
2018	1 amendment to correct the 5 Year Historical – "All Other Affiliated Investments" line.
2017	2 amendments – The first was to correct Page 9 & Page 18 due to changes in lines of business and also page 19's due to change in column I1. The second amendment was to the filing to correct the Credit IEE.
2016	2 amendments – The first was correct the 5 Year Historical – "All Other Affiliated Investments" line. The second was to correct the Supplemental Interrogatories to show Yes – we would be filing a Credit IEE.
2015	4 amendments – First to correct Note 25 (was originally omitted); second was to correct the State Pages and Schedule T; the third was to correct Schedule D, Part 3; the fourth was to correct General Interrogatory #30.
2014	2 amendments – first is to correct the Direct Losses Paid on Schedule T, and the NC and Grand Total State page; the second amendment was to the audited financial statement.
2013	3 amendments – first is to correct Schedule D, Part 1A, Section 1 – data was entered on wrong lines; the second was to amend the RBC to match the amended Schedule

	D. This also resulted in a change in the Authorized Control level on the 5 Year Historical of the A/S (3rd amendment).
2012	1 amendment to correct the 5 Year Historical – “All Other Affiliated Investments” line.
2011	2 amendments – first is to correct the 5 Year Historical – “All Other Affiliated Investments” line, the second is to amend the audited financial statement.
2010	2 amendments – first is to correct Page 8 (correct amounts ceded to affiliates & non-affiliates – total amount did not change). Also corrected the electronic filing for Note 5D and Note 32. The second amendment was to the Schedule P, Electronic filing for Note 32, electronic filing for the Actuarial Opinion to correct erroneous reporting of loss reserve discounting.
2009	None

12. Has any current or former board member, corporate officer, or director of the Applicant or its ultimate or intermediate controlling parent been suspended, convicted, charged, or acquitted of securities related violations?

RESPONSE: No current or former board member, corporate officer, or director of the Applicant or its ultimate or intermediate controlling parent been suspended, convicted, charged, or acquitted of securities related violations.

13. Please certify that all required Form A filings have been filed in the appropriate jurisdictions and confirm the identity of those jurisdictions.

RESPONSE: The only required Form A filing is with the OCI and it has been filed. Other than the foregoing, we certify that no other Form A filings are required to have been filed in connection with the proposed transaction.

14. Please certify that all required Form D filings have been filed and approved in the appropriate jurisdictions and confirm the identity of those jurisdictions.

RESPONSE: Intercompany agreements have been included as part of the Form A for approval by the OCI as part of the proposed transaction. The only Form D in connection with the proposed transaction is the Form D filed with the North Carolina Department of Insurance with respect to the Reinsurance Agreement, which was approved on April 16, 2019.

15. Please provide both Integon National Insurance Company’s internal IT Risk Assessment program documents and policies.

RESPONSE: Integon National Insurance Company adheres to NGHC’s internal IT Risk Assessment program. Please see the response to Question 16 below.

16. Please provide National General Holding Corp.’s internal Risk Assessment program documents and policies.

RESPONSE: National General Holding Corp.'s internal Risk Assessment program applies to NGHC and its subsidiaries, including Integon National Insurance Company. Please see Attachment 7 (in the binder provided to you via Fed Ex) for NGHC's IT Risk Assessment Program documents and policies.

17. Please provide Integon National's reinsurance guidelines and a thorough description of the reinsurance program, including the identity of the reinsurers under each major reinsurance treaty. The description of the reinsurance program should describe the role of any captive reinsurance involving affiliates in the National General holding company system and any reinsurance relationships with the AmTrust Group.

RESPONSE: NGHC's insurance subsidiaries, including Integon National (such insurance subsidiaries, the "NGHC Group"), utilize reinsurance agreements to transfer portions of the underlying risk of the business the NGHC Group writes to various affiliated and third-party reinsurance companies. Reinsurance does not discharge or diminish the NGHC Group's obligation to pay claims covered by the insurance policies it issues; however, it does permit the NGHC Group to recover certain incurred losses from its reinsurers and the NGHC Group's reinsurance recoveries reduce the maximum loss that it may incur as a result of a covered loss event. The NGHC Group's reinsurers generally carry at least an A.M. Best rating of "A-" (Excellent) or are fully collateralized at the time they enter into the NGHC Group's reinsurance agreements. The NGHC Group also enters into reinsurance relationships with third-party captives formed by agents as a mechanism for sharing risk and profit. The total amount, cost and limits relating to the reinsurance coverage the NGHC Group purchases may vary from year to year based upon a variety of factors, including the availability of quality reinsurance at an acceptable price and the level of risk that the NGHC Group chooses to retain for its own account. There are no reinsurance relationships between the NGHC Group and the AmTrust Group.

The NGHC Group assumes and cedes insurance risks under various reinsurance agreements, on both a pro rata basis and excess of loss basis. The NGHC Group purchases reinsurance to mitigate the volatility of direct and assumed business, which may be caused by the aggregate value or the concentration of written exposures in a particular geographic area or business segment and may arise from catastrophes or other events.

The following is a description of the NGHC Group's major reinsurance treaties:

Quota Share Agreements

- Effective July 1, 2017, the NGHC Group entered into an Auto Quota Share Agreement (the "Auto Quota Share Agreement") covering the NGHC Group's auto lines of business, under which the NGHC Group cedes 15.0% of net liability under auto policies in force as of the effective date and new and renewal policies issued during the two-year term of the agreement to Hannover Re, an unaffiliated third party. Under the Auto Quota Share Agreement, the NGHC Group receives a 31.2% provisional ceding commission on premiums ceded to the reinsurer during the term of the Auto Quota Share Agreement, subject to a sliding scale adjustment to a maximum of 32.8% if the loss ratio for the reinsured business is 63.4% or less and a minimum of 29.6% if the loss ratio is 66.6% or higher. The liability of the reinsurer is capped at \$5 million per risk or \$70 million per event. The NGHC Group retains the flexibility, under certain conditions, to increase the cession percentage up to a maximum cession of 30.0% and to decrease the cession percentage to a minimum cession of 10.0% during 2018 and 5.0% during 2019. Effective January 1, 2019,

the NGHC Group cedes 7.0% of net liability under new and renewal auto policies written on or after January 1, 2019.

- Effective July 1, 2017, the NGHC Group entered into a Homeowners Quota Share Agreement (the "HO Quota Share Agreement") covering the NGHC Group's homeowners line of business, under which the NGHC Group cedes 29.6% of net liability under homeowners policies, including lender-placed property policies, in force as of the effective date and new and renewal policies issued during the two-year term of the agreement to a panel of unaffiliated third-party reinsurance providers led by Everest Re and Munich Re. Under the HO Quota Share Agreement, the NGHC Group receives a 42.5% ceding commission on premiums ceded to the reinsurers during the term of the HO Quota Share Agreement. The liability of the reinsurers is capped at \$5 million per risk or \$70 million per event. Effective May 1, 2018, the NGHC Group cedes an additional 12.4% of net liability (for a total cession of 42.0%) and receives a 38.0% ceding commission on the additional 12.4% in ceded premiums.

Catastrophe Reinsurance

- As of May 1, 2018, the NGHC Group's reinsurance property catastrophe excess of loss program, protecting the NGHC Group against catastrophic events and other large losses, provides a total of \$575 million in coverage with a \$70 million retention, with one reinstatement. Effective July 1, 2018, the casualty program provides \$35 million in coverage in excess of a \$5 million retention.

- a. Are there expected to be any conditional commissions and or profit sharing contemplated in the reinsurance agreements?**

RESPONSE: There are no expected conditional commissions or profit sharing contemplated in the reinsurance agreements.

18. Please provide the status of the Well Fargo lender placed insurance litigation.

RESPONSE: The parties involved (including NGHC as a defendant) in the consolidated multi-district class action litigation in the United States District Court for the Central District of California with respect to allegations of improper practices in the placement of insurance in the historical and no longer existing collateral protection insurance program for Wells Fargo have recently reached agreement upon a settlement of the litigation subject to final documentation and court approval.

19. Please identify if National General Holdings Corp. is affiliated with AmTrust Financial Services. Please identify and describe any administrative or service contracts between National General Holdings Corp. and AmTrust Financial Services

RESPONSE: The National General Group (NAIC Group 4928) is a group of personal lines insurance companies focused primarily on personal lines auto, homeowners and supplemental health products. National General Holdings Corp. is a public company traded on NASDAQ with a \$2.7 billion market cap. AmTrust Financial Services, Inc. (NAIC Group 2538) is a privately held commercial lines insurance group focused on workers compensation, commercial liability and warranty coverage. The

ultimate controlling person in National General also holds an ownership stake in AmTrust. There are no longer any administrative or service contracts in effect between National General and AmTrust.

20. Are there any plans to simplify the holding company structure that the Applicant and the Applicant's ultimate controlling person currently use?

RESPONSE: National General regularly reviews its structure for opportunities to simplify its holding company structure. As a part of these efforts, we have recently filed an application to redomesticate our Louisiana carrier (where we originally had 3 carriers that over time were merged into one) and our Arkansas carrier to North Carolina, National General's lead state.

21. How many claims did Integon National Insurance Company receive nationwide in each of 2016, 2017, 2018, and year-to-date in 2019?

RESPONSE: Integon National Insurance received the following nationwide claims: in 2016, 115,324 claims; in 2017, 118,576 claims; in 2018, 121,256 claims; and in Q1 2019, 28,058 claims.

22. How many insurance department complaints did Integon National Insurance receive nationwide in each of 2016, 2017, 2018 and year-to-date in 2019?

RESPONSE: Integon National Insurance received the following insurance department complaints nationwide: in 2016, 694 total complaints (of which 532 are claims-related); in 2017, 752 total complaints (of which 521 are claims-related); in 2018, 912 total complaints (of which 576 are claims-related); and in year-to-date 2019, 311 total complaints (of which 207 are claims-related).

We trust that you will find the foregoing to be responsive to your comments and questions. Please contact the undersigned at (212) 380-9479 if you require any further information.

Sincerely,

National General Holdings Corp.

By: 

Name: Jeffrey Weissmann

Title: General Counsel and Secretary