



State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

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DATE: June 27, 2019

TO: Amy J. Malm, Hearing Examiner

FROM: Steven J. Junior

SUBJECT: The Acquisition of Control of National Farmers Union Property and Casualty Company by Integon National Insurance Company (Case No. 19-C43025).

DESCRIPTION OF THE TRANSACTION

Overview

Integon National Insurance Company (hereinafter "Integon National") filed a Form A filing for the acquisition of control of National Farmers Union Property and Casualty Company dated December 5, 2018, which was received by the Wisconsin Office of the Commissioner of Insurance (the "OCI") on December 7, 2018. Integon National intends that the products and markets in which National Farmers Union Property and Casualty Company operates will remain substantially unchanged following the acquisition, except for integration over time into the National General Group's shared services environment. National Farmers Union Property and Casualty Company offers auto, homeowners, renters, farm, small commercial, health, and online business insurance, including insurance for rural residents and rural telephone and cable companies. The only line of business that would be discontinued in the event of the closing of the proposed acquisition is multi-peril crop insurance. The company is licensed in the District of Columbia and all U.S. states, except Florida.

On November 13, 2018, Integon National Insurance Company, as Buyer, entered into a Stock Purchase Agreement with General Casualty Company of Wisconsin, a Wisconsin domestic stock insurance company, as Seller, pursuant to which, subject to the satisfaction or waiver of the conditions set forth in the Stock Purchase Agreement, Integon National agreed to purchase 4,200,000 shares of common stock of National Farmers Union Property and Casualty Company, which constitutes all of the issued and outstanding shares of National Farmers Union Property and Casualty Company's capital stock.

The estimated purchase price is equal to the National Farmers Union Property and Casualty Company's statutory surplus at closing, minus \$5.5 million. This amount is expected to approximate \$43 million.

Scope of Review

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. Furthermore, the following standards are specified:

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 [s. 611.72 (3) (am) 1, Wis. Stat.];
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 [s. 611.72 (3) (am) 2, Wis. Stat.];
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 [s. 611.72 (3) (am) 3, Wis. Stat.];
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 [s. 611.72 (3) (am) 4, Wis. Stat.]; 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 [s. 611.72 (3) (am) 5, Wis. Stat.].

National Farmers Union Property and Casualty Company is currently an indirectly wholly-owned subsidiary of QBE Insurance Group Limited, which is the ultimate controlling person of the QBE Group (NAIC Group Code 796). It is a direct, wholly-owned subsidiary of General Casualty Company of Wisconsin.

The holding company subsystem of the proposed acquirer, under the control of the publicly-traded National General Holdings Corp. (hereinafter also, "National General Group"), has National Association of Insurance Commissioners (hereinafter, "NAIC") Group Code 4928 and presently includes 26 insurers domiciled in the United States, twelve of which are licensed in Wisconsin. The following insurers in the National General Group are currently licensed in the Wisconsin:

1. Integon National Insurance Company
2. Century-National Insurance Company
3. Integon General Insurance Corporation
4. Integon Indemnity Corporation
5. MIC General Insurance Corporation
6. National General Assurance Company
7. National General Insurance Company
8. National General Insurance Online, Inc.

9. New South Insurance Company
10. Direct National Insurance Company
11. Direct General Life Insurance Company
12. National Health Insurance Company

Leah Karfunkel, individually (1%) and as trustee of the Leah Karfunkel 2016-NG GRAT (10.1%) and the Michael Karfunkel Family 2005 Trust (28.3%), directly and indirectly owns 39.5% of the common stock of National General Holdings Corp.

Integon National Insurance Company, headquartered at 5630 University Parkway Winston-Salem, North Carolina 27105, is a multi-state property and casualty insurer writing predominately private passenger auto insurance through independent agents. It is licensed in all 50 states and the District of Columbia. Integon National participates in a 100% quota share reinsurance agreement with its affiliates, including ACP Re and National General Re, Ltd., the latter of which is an unauthorized offshore reinsurer. National General Re, Ltd. received 34% of Integon National's gross premiums and 60% of Integon National's 2018 ceded premiums.

OBSERVATIONS BASED ON REVIEW OF DOCUMENTS AND ON INQUIRIES

Review of the Form A filing and other documents filed in connection with the proposed acquisition of control resulted in the following observations concerning Integon National and the holding company system of which it is a part:

1. Integon National is a member of a very complex holding company system.
2. Integon National has a long and consistent pattern of needing to amend its statutory financial statements.
3. The insurers in the National General Group have a history of regulatory actions by other states, which include sizable forfeitures.

Integon National is a member of a very complex holding company system. The U.S. insurers are represented under two NAIC holding company group codes, National General Group (NAIC Group Code 4928) and AmTrust Financial Services Group (NAIC Group Code 2538). In addition, the holding company system has significant international entities and business interests.

Leah Karfunkel, individually (1%) and as trustee of the Leah Karfunkel 2016-NG GRAT (10.1%) and the Michael Karfunkel Family 2005 Trust (28.3%), directly and indirectly owns 39.5% of the common stock of National General Holdings Corp.

George Karfunkel, Barry Zyskind, and Leah Karfunkel own or control, directly and indirectly, a 66.49% economic interest in Evergreen Parent, L.P., the direct parent of the privately-held AmTrust Financial Services, Inc. The holding company subsystem under the control of AmTrust Financial Services, Inc. (hereinafter also, "AmTrust Financial Services Group"), has National Association of Insurance Commissioners (hereinafter, "NAIC") Group Code 2538 and presently includes 25 insurers domiciled in the United States, twelve of which are licensed in Wisconsin.

National General Holdings Corp. is an affiliate of AmTrust Financial Services, Inc. given their:

- Common ownership;

- Overlapping board members;
- Their joint marketing and consulting operations for AmTrust's foreign captive insurer;
- Overlapping investments in property; and
- The head offices of both National General and AmTrust are in the same building in New York City (59 Maiden Lane) and just a few floors apart.

Furthermore, according to National General Holding Corp.'s 2018 Annual Report:

AmTrust is an insurance holding company controlled by Leah Karfunkel, George Karfunkel and Barry Zyskind. Because Leah Karfunkel beneficially owns 39.5% of our outstanding shares of common stock, AmTrust is a related party. We are party to arrangements with AmTrust and its affiliates, including, among others, an asset purchase agreement pursuant to which AmTrust sold to us and our affiliates our policy administration system; a consulting and marketing agreement pursuant to which a subsidiary of AmTrust provides certain consulting and marketing services to promote our captive insurance program; an investment in an entity owning life settlement contracts; and joint investments in entities owning office buildings in Ohio, Texas and Illinois.

Integon National has a long and consistent pattern of needing to amend its statutory financial statements. Since 2009, Integon National has amended its schedules to NAIC annual and quarterly financial statement filings a total of 19 times, which is summarized as follows:

March 31, 2009 Quarterly Statement amended once
December 31, 2010 Annual Statement amended twice
December 31, 2011 Annual Statement amended once
December 31, 2012 Annual Statement amended once
September 30, 2013 Quarterly Statement amended once
December 31, 2013 Annual Statement amended twice
December 31, 2014 Annual Statement amended once
June 30, 2015 Quarterly Statement amended once
December 31, 2015 Annual Statement amended four times
December 31, 2016 Annual Statement amended twice
December 31, 2017 Annual Statement amended once
March 31, 2018 Quarterly Statement amended once
December 31, 2018 Annual Statement amended once

The insurers in the National General Group have a history of regulatory actions by other states, which include sizable forfeitures. In an attachment to the biographical affidavit for one of the company's leading officers, the total forfeitures for the National General Group for the period 2010 through 2018 are summarized. This attachment is prefaced as follows:

"From time-to-time, in the course of our routine part of doing business, our company incurs certain fines or penalties related to immaterial matters, i.e. incomplete or late filings, which we consider to be nominal in nature, and, therefore, are not reflected in the following list"

The following is a summary of the amount forfeitures paid by members of the National General Group, excluding those they themselves regard as relating to immaterial matters:

2010	\$165,000
2011	50,000
2012	5,000
2013	72,800
2014	7,500
2015	25,000
2016	25,000
2017	388,000
2018	203,050

Representatives of the Seller, General Casualty Company of Wisconsin, have clearly described the determination of their ultimate controlling person, QBE Insurance Group Limited, to exit the business in which National Farmers Union Property and Casualty Company is engaged, except for crop insurance. In this context, the acquisition of control of National Farmers Union Property and Casualty Company by Integon National Insurance Company, notwithstanding the foregoing observations, may be deemed to be more in the public interest than the alternative of near-term complete cessation of the insurance programs for insureds and mass termination of employment of those serving these insureds.

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 and its supplements are sufficient to the transaction.
2. The plan would not violate the law or be contrary to the interests of National Farmers Union Property and Casualty Company or its policyholders, or any participating nondomestic insurers and their respective Wisconsin policyholders.
3. After the acquisition of control, neither National Farmers Union Property and Casualty Company nor any participating nondomestic insurer will experience a change that would cause them to become unable to satisfy the requirements for the issuance of a license to write the lines of insurance 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 Integon National Insurance Company individually, and its holding company system taken as a whole, are unlikely to jeopardize the financial stability of any participating domestic or nondomestic insurer, or to prejudice the interests of their respective Wisconsin policyholders.
6. The plan results in a change in control for National Farmers Union Property and Casualty Company. There are no plans or proposals to liquidate the domestic stock insurance corporation, National Farmers Union Property and Casualty Company, to sell its assets

(other than investment portfolio transactions in the ordinary course of business), or to consolidate or merge it with any person. The anticipated business, corporate structure, and management following the acquisition has been described in the Form A and its supplements, but such plans are subject to additional change and development. The plan does not appear to be adverse to National Farmers Union Property and Casualty Company or any participating nondomestic insurers, or their respective policyholders, or to conflict with the public interest.

7. The competence and integrity of the persons who would control the operation of National Farmers Union Property and Casualty Company, a participating domestic insurer, and participating nondomestic insurers licensed in Wisconsin, are such that it is in the interest of their respective policyholders and of the public to permit the proposed plan. This determination is one of comparative advantage between approving the acquisition of control as opposed to the consequences of disapproving the acquisition of control.

It would be highly desirable for National Farmers Union Property and Casualty Company to be redomiciled to a state that is familiar with Integon National's complex holding company system, the idiosyncrasies of its statutory financial reporting that complexity entails, and any regulatory compliance improvement plans that might be underway. Accordingly, this is recommended as a condition subsequent to the recommended approval. In addition, since the company will be a Wisconsin-domiciled insurer until a redomestication can be effectuated, it will be necessary for the OCI to obtain consents to jurisdiction for entities in the succession of control. Accordingly, this is also recommended as a condition subsequent to the recommended approval.

RECOMMENDATION

I recommend that the plan for the acquisition of control of National Farmers Union Property and Casualty Company by Integon National Insurance Company be approved, subject to the following conditions subsequent:

- a) Following the consummation of the acquisition of control, National Farmers Union Property and Casualty Company shall promptly apply to redomicile to another state of the United States such that National Farmers Union Property and Casualty Company can reasonably be expected to complete the redomestication prior to December 31, 2020. If National Farmers Union Property and Casualty Company has not redomiciled on or before December 31, 2020, it shall cease and desist from the writing of new direct or assumed insurance business until such time as it successfully effectuates a change of domicile, unless the Wisconsin Office of the Commissioner of Insurance, in its sole discretion, allows additional time for it to redomicile without ceasing and desisting from the writing of new direct or assumed insurance business.
- b) Each of the following affiliated entities, as entities in the proposed succession of control of National Farmers Union Property and Casualty Company shall file a Consent to Jurisdiction Statement on National Association of Insurance Commissioners' Form AA within ten (10) calendar days of the consummation of the proposed change in control:

1. Leah Karfunkel 2016-NG GRAT

Ms. Amy J. Malm
Case No. 19-C43025
June 27, 2019
Page 7

2. Michael Karfunkel Family 2005 Trust
3. National General Holdings Corp.
4. National General Management Corp.