

Steven J. Junior  
Insurance Program Manager  
Division of Financial Regulation

Re: Proposed Merger of National Mutual Benefit with and into Western Fraternal Life Association, with a redomestication to Wisconsin and Change of Name

Dear Mr. Junior:

The following are our responses to your August 20, 2020 letter requesting more information. Your questions are underlined and bolded, and retain the numbers from your original letter.

### **Understanding the Due Diligence Process**

**1) Please describe the process, time frame and deliberations that were undertaken by Western Fraternal Life Association and National Mutual Benefit management and boards of directors in arriving at the current plan of merger. Include any deliberations or discussions of plans or options considered apart from the immediate plan of merger.**

- a) Over the last 20 years, Western Fraternal Life (WFL) has considered possible consolidations with a number of smaller fraternal. WFL also pursued the possibility of managing assets of smaller fraternal and discussed this idea with a number of societies. These possibilities did not move forward due to a number of factors including financial viability and a lack of interest.
- b) In 2016, the WFL Board of Directors added to the Western Fraternal Life Finance and Investment Committee Charter (appendix A) the following charge: "The committee will review and provide guidance to the Board about proposed mergers, acquisitions, divestitures and other similar transactions." One of the goals of the committee was look at the pros and cons of a merger (appendix B). The committee and management discussed what Western Fraternal Life Association (WFL) should look for in a merger partner and the main discussion revolved around finding a partner that is well capitalized with an established sales force. The committee and management also discussed finding a partner that would help to create economies of scale to lower expenses and reduce duplicate processes. The end goal would be to have a society that is financially strong enough to support the fraternal activities of the organization along with meeting the needs of the insurance side of the business.
- c) One of the other opportunities that WFL investigated was the possibility of "shared services" with other fraternal. The American Fraternal Alliance brought this idea to many different industry meetings, including a meeting in 2016 attended by WFL and 12 other fraternal. While on paper this sounded like a good idea, when looking at how this would be structured, WFL determined that this was not a good opportunity. In order for it to work, the fraternal would have to create a company that would be owned by all of the fraternal. It was determined that at the time WFL would have been one of the financially strongest fraternal in the group and if another fraternal dropped out of the group, the whole thing would fall apart. Due to lack of interest by many of those in attendance, the idea was dropped.

- d) In 2019, the WFL Finance and Investment Committee identified NMB as a good merger candidate. They are financially strong and share similar values and products. The merger would be structured as a merger of equals, not one society taking over the other. It was also determined that now is a good time to merge because both societies are financially healthy and the economies of scale will help provide funds to invest in technology and growth strategies. Another factor is the current economic environment that put a major strain on profits due to the continued low interest rate environment.
- e) Craig Van Dyke serves on the Board of Directors of the American Fraternal Alliance and has knowledge of the struggles fraternal are having financially and with governance. One of the most important items that the AFA Board discusses is the financial strength of the fraternal system. This has weakened over the last 20 years and one of the solutions is to create greater economies of scale through consolidations. The last thing the fraternal system wants is societies failing.
- f) The NMB Board of Directors approved its 2023 Strategic Plan in June of 2018. (appendix C). One of the key strategies was to explore potential mergers. NMB's CEO, CFO and a business analyst were assigned the responsibility to conduct this exploration. Over the next 6 months an analysis of potential fraternal partners was conducted and a ranking of best fit was created. WFL was identified as the top candidate.
- g) On November 28, 2018 Craig Van Dyke and Dan Shinnick participated in a meeting of fraternal CEOs. Many topics were covered including joint services models and the need to become bigger to achieve greater economies of scale. On December 5, 2018 Craig and Dan had a follow-up phone call where the potential of a future merger was first discussed. Over the next few months Craig and Dan had various in-person and phone meetings to further explore the idea.
- h) On February 2, 2019 Craig Van Dyke informed the WFL Board of Directors in Executive session that he had discussions with Dan Shinnick of NMB about the possibility of merging the two societies. The Board voted unanimously to continue the discussions and charged management and the Finance and Investment Committee with exploring this possibility.
- i) On February 21, 2019 Dan Shinnick informed the NMB Board of Directors in Executive session about the discussions regarding a possible merger with WFL.
- j) Craig and Dan met on March 13, 2019 and they had a lengthy discussion about various topics including:
  - i) Benefits of merging, governance options, merger structure, and due diligence needed to move forward.
  - ii) Next steps
- k) On April 17, 2019 Craig and Dan had a teleconference with Gary Strohm, of Strohm Ballweg, about the financial merits of the merger. This highlighted the significant financial benefits to both societies to merging. They also talked about possible deal breakers and setting up a meeting between members of each board to ask questions and share concerns. At the April 26, 2019 WFL Board executive session, Craig provided the Board with additional background information about NMB. Items included NMB's

governance model, bylaws, states where they are licensed, membership and financial trends. Discussion was held on the need to look at opportunities that would help strengthen WFL's ability to reverse the financial and membership trends. The Board realized that the status quo is not a viable option. The Board voted to have two Board members (Mary Bradley and Brenda Vrieze) meet with two NMB Board members. Also included in the motion was to have the Finance and Investment Committee provide guidance. Due to a conflict, Mary Bradley was not able to attend. It was decided that Duane Jirik would take her place. Other items discussed:

- i) The Board identified that the ability to maintain the support of Czech and Slovak heritage would be essential to a merger agreement with NMB.
  - ii) The Board and management agreed that it would be in WFL's best interest to retain another independent actuary to review the transaction in addition to the work of Griffith Ballard, the consulting actuary for both companies.
- l) An extensive due diligence process was started in April 2019. This included a checklist of 76 items to review (appendix D).
- m) On May 16, 2019 the NMB Board of Directors met in Executive Session to discuss the potential for merger with WFL.
- i) John McHugh, Maureen O'Hern Hahn and Dan Shinnick were selected to represent the NMB Board on an exploratory committee with WFL Board Members
- n) On June 10, 2019 the representatives selected by the boards of both societies, Duane Jirik, Brenda Vrieze, John McHugh, Maureen O'Hern Hahn, Craig Van Dyke, and Dan Shinnick met to build relationships and identify key issues to be explored in determining whether a merger would be in the best interests of both societies. This meeting was facilitated by Gary Strohm of Strohm Ballweg. A list of key questions was prepared. (appendix E).
- o) In a July 2019 executive session Craig provided the Board with the questions from the joint board meeting in June.
- p) On August 14, 2019 the NMB Board Executive Session conducted further discussion about the potential for merger with WFL.
- q) Responses to all of the questions were prepared and on September 6, 2019, the joint board subcommittee met to discuss the responses to these questions (appendix F).
- r) On September 11, 2019, the WFL Board met and reviewed the document that was developed in response to questions from the June joint Board committee meeting (appendix F). The Board discussed many issues including growth in sales and membership, communications to both memberships, and the age of memberships.
- i) The WFL Board determined that there were no red flags or issues with proceeding with this merger. The Board unanimously agreed to move forward with merger talks.
  - ii) The Board appointed Mary Bradley, Brenda Vrieze and Craig Van Dyke as a sub-committee to develop the merger agreement and new bylaws.

- s) On September 19, 2019, Craig Van Dyke and WFL legal counsel Todd Martin met with the Iowa Insurance Division to inform them of the possible merger. No concerns about the process were brought up.
- t) On October 2, 2019, Dan Shinnick and NMB legal counsel Noreen Parrett met with the Wisconsin Office of the Commissioner of Insurance to inform them of the possible merger. No concerns about the process were brought up.
- u) On October 11, 2019, a joint meeting including Mary Bradley, Brenda Vrieze, Nancy Heykes, John McHugh, Todd Martin, Noreen Parrett, Dan Shinnick and Craig Van Dyke was conducted to discuss key terms for the merger documents (merger agreement, articles of incorporation and bylaws, and representations and warranties). Drafts of these merger documents were prepared based in feedback from this meeting.
- v) On October 22, 2019, a draft merger agreement, fraternal transition, representations and warranties, and articles of incorporation and bylaws were sent to both the Iowa Insurance Division and Wisconsin OCI for review. Neither insurance department expressed concern.
- w) On November 9 and 20, 2019, Craig provided a review of the due diligence results to the WFL Board. Discussion was held on approving the “Authorization to Proceed with Merger with National Mutual Benefit”. A motion was made to approve the merger documents, with resolution approval contingent on a joint meeting with the NMB Board to be held in January 2020. The motion passed unanimously.
- x) On November 21, 2019 the NMB Board met in Executive session to continue discussion of the potential merger with Western Fraternal.
- y) On December 16, 2019, the WFL Board met to create a communications plan for member meetings to be held to discuss the potential merger. An outside consultant was brought in to discuss any positives and negatives/concerns about the merger. The Board also reviewed the actuarial report from the independent actuarial firm hired to evaluate the merger, Lewis & Ellis (appendix G – WFL Report). Lewis & Ellis also provided a report for NMB that was presented to the NMB Board (appendix H – NMB Report).
- z) On January 9, 2020, the WFL Board met to further discuss the merger. Also discussed at this meeting was the communication process to be utilized with WFL delegates and members if the merger agreement was approved by the boards. The Board also discussed using an outside company to handle the voting process.
- aa) On January 15, 2020, the NMB Merger Committee met to review the merger documents, prepare for the joint meeting and review due diligence results.
- bb) On January 18, 2020, WFL and NMB boards conducted a joint meeting to discuss the merger. Board members were grouped to discuss merger topics (appendix I).
  - i) How are we going to grow
  - ii) Fraternal advisory board
  - iii) Delegate/member change management plan
  - iv) Employee change management plan
  - v) Integration
  - vi) Vision for the future

- cc) On January 18, 2020 the NMB Board voted to approve the merger resolutions.
- dd) On January 23, 2020 the WFL Board voted to approve the merger resolutions (appendix J)
- ee) On February 14, 2020 the WFL Board met to discuss the next steps for merger approval.
  - i) A motion was made and passed unanimously to approve an employee severance plan.
  - ii) A motion was made and passed unanimously to approve a resolution directing a vote by the delegates on the proposed merger.
  - iii) A motion was made and passed unanimously to approve the voting procedures under Section 56 of the WFL bylaws. Section 56 states that the procedures for such voting shall be under the supervision of the Chairman of the Board.
- ff) Member meetings were set up to go to each of the seven WFL districts and to two member meetings of NMB.
- gg) Due to COVID circumstances outside WFL's control, only three WFL meetings were held in person. For those WFL districts that did not have an in-person meeting, a Zoom meeting was set up to have discussions with the delegates/members.
  - (i) Craig Van Dyke and Dan Shinnick began the meetings with a power point presentation on the merits of the merger (appendix K).
  - (ii) Over 90% of the WFL delegates participated in these virtual meetings.
  - (iii) All delegates were given the opportunity to ask questions.

**2) What, if any, independent consultants or advisors were engaged by either or both Western Fraternal Life Association and National Mutual Benefit in evaluating the current proposed merger?**

- a) Independent consultants:
  - Strohm Ballweg – Auditors
  - Griffith Ballard – Actuarial
  - Lewis & Ellis – Actuarial
  - Todd Martin – legal for Western
  - Noreen Parrett – legal for NMB
  - BTC – WFL Investment Advisor
  - Securian Asset Management – WFL Investment Advisor
  - SLA/Prime Advisors – NMB Investment Advisor
  - Patti Seda – HR
  - Russ Bostik, MVP Advisory Group – Systems Integration

## **Election by delegates of Western Fraternal**

### **3) What process was undertaken in the selection of the independent tabulation agent for Western Fraternal Life Association, YesElections (formally known as Election-America)?**

- a) YesElections was referred to Western by another Fraternal that had used them for a vote they had held on governance changes. They were highly recommended by this society. Craig Van Dyke spoke with YesElections about their services and how they handled the election process. They were able to provide multiple options on submitting ballots including the ability to return ballots in paper or electronically. They were chosen in order to ensure that an independent outside organization was responsible for the accurate counting of the ballots. They provided the design, material production and election administration. By using control numbers on each ballot, they were able to ensure that each delegate could only vote one time. The Chair of the Board submitted the recommendation to approve Yes Elections to the full Board and the Board unanimously approved the selection. The results of the vote were contained in a report signed by the CEO of YesElections (appendix L).
- b) YesElections mailed a paper ballot to all delegates on April 24<sup>th</sup> and sent an email to those delegates whose email addresses that were on record with WFL on April 25<sup>th</sup>.
- c) Both the electronic ballot and paper ballot (appendix M) clearly stated the resolution that they were voting for or against, the voting period and deadline, and the number of votes needed to pass the resolution.
- d) Reminder emails were sent to the delegates whose ballot had not been received on multiple occasions (appendix N).

### **4) Were the procedures for the merger vote by Delegates under the supervision of the Chairman of the Board, including access to and supervision of the independent tabulation agent, YesElections (formally known as Election-America)? If not, what were the circumstances why this was not the case.**

- a) Yes. The voting procedures were under the supervision of the WFL Chairman of the Board. A motion was made and passed unanimously by the WFL Board to approve the voting procedures under Section 56 of the WFL bylaws. Motion carried unanimously. Section 56 states that the procedures for such voting shall be under the supervision of the Chairman of the Board.
- b) The WFL Chairman of the Board delegated to the CEO responsibility to carry out the voting process as approved by the WFL Board, and continued to act in a supervisory role.

**5) How many ballots of Delegates of Western Fraternal Life Association were received late and thereby disqualified? Of the late-filed disqualified ballots, how many voted in favor of the merger and how many voted against? If no late-filed were ever received, please have YesElections prepare a letter to the effect, signed by a responsible officer of the organization.**

a) As of August 28, 2020, no ballots were received after the election closed. Please see attached letter signed by the CEO of YesElections (appendix O) confirming the number of ballots received after the election closed at 11:59 pm CDT on May 26, 2020.

**6) Philip J. Torticill, Retired President of Western Fraternal Life Association, contends that he and his wife casted their votes by mail in a timely manner, but that their votes were never counted. Has Western Fraternal Life Association itself received any complaints from Delegates that their votes were never counted? If so, please describe each such complaint.**

a) Phil Torticill and his wife's ballot were never received by YesElections. Mr. Torticill contacted a few WFL Board members by phone and this was presented to and discussed by the full Board at its meeting on June 17, 2020. If the two ballots had been received, it would not have changed the outcome of the vote, even if they were both "no" votes.

b) Western Fraternal has not received any complaints from delegates that their votes were not counted.

c) All ballots received by YesElections prior to the end of the election were counted. As of August 28, 2020 no ballots were received after the election closed. (appendix O).

#### **Essential Licensing Coverage Issues**

**7) What is the status of Western Fraternal Life Association's negotiations with another fraternal benefit society to acquire Western Fraternal Life Association's certificates in California? Is this being structured as a novation, or as reinsurance with a related administrative services agreement? If novation, does California law require the affirmative consent of the certificate holder or is approval by the California Department of Insurance alone sufficient?**

a) Western Fraternal has been in discussions and has an agreement in concept with GBU Financial Life to transfer the California certificates. California counsel is developing the transfer agreement and has presented a draft to GBU California counsel.

b) This agreement is being structured as a novation.

c) It is our understanding that approval by the California Department of Insurance and the Board of Directors of both societies is sufficient based on a very similar transaction that was entered into several years ago involving two other fraternal benefit societies.

**What is the status of Western Fraternal Life Association's expansion applications in Arizona, Indiana, and Wyoming?**

- d) As of the date of this letter, expansion into Arizona has been approved. Indiana and Wyoming are currently in process of approval. Expansion forms were filed in the three states on June 22, 2020.

**Other Matters**

**8) Are the information technology platforms currently in place at Western Fraternal Life Association and National Mutual Benefit relatively compatible? How long is the integration of information technology platforms anticipated to take?**

- a) The process of integrating the IT platforms has been started. Universal Conversion Technologies II LP has been hired to do the conversion of the data from Western's system into NMB's system (LifePro). We are currently on track to be able to process newly issued certificates by the intended effective date of the merger, January 1, 2021. It is expected to have in force policies converted by April 2021. During that gap, we will be using both systems to process in force certificates.

**9) Please describe post-acquisition plans for charitable contributions, commitment to community outreach, and lodge activities in comparison to historical practices at the two societies separately?**

- a) The Fraternal Transition document lays out the plan for future charitable and community activities. There will be no changes in 2021. We have created a Fraternal Advisory Board with equal representation from WFL and NMB to work with the Board of the merged society on the direction of future fraternal activities and charitable contributions along with lodge activity practices. As we realize the benefits of the merger, we intend to grow and modernize our fraternal programs, lodge/branch activities and community outreach.

Daniel L Shinnick  
President and CEO  
National Mutual Benefit  
September 2<sup>nd</sup>, 2020

Craig Van Dyke  
President and CEO  
Western Fraternal Life Association  
September 2<sup>nd</sup>, 2020