



State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

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Exh # 13
Date 11 DEC. 2017
Case 17-C42186
Ins. Comm.

DATE: December 5, 2017
TO: Amy J. Malm, Hearing Examiner
FROM: Steven J. Junior, Insurance Examiner Supervisor
SUBJECT: In the Matter of the Acquisition of Control of The Omaha Indemnity Company by Hannover Finance, Inc. (Case No. 17-C42186) – Redacted Public Memorandum

DESCRIPTION OF THE TRANSACTION

Overview

Hannover Finance, Inc. filed a Form A, "Statement Regarding the Acquisition of Control of or Merger with a Domestic Insurer", dated October 20, 2017. Thomas R. Hrdlick, an attorney with the Milwaukee law office of Foley & Lardner LLP, filed a cover letter dated October 20, 2017, introducing the Form A on behalf of Hannover Finance, Inc.

The Omaha Indemnity Company is a Wisconsin-domiciled stock property and casualty insurance company. It was incorporated on January 20, 1956, under the laws of the state of Wisconsin as The Equitable Casualty Company. On February 7, 1967, the articles of incorporation were amended and restated in connection with a transfer of ownership to Mutual of Omaha Insurance Company. The present name of the company was adopted on October 30, 1967. It is licensed in 29 states, including Wisconsin, and has been in run-off since 1986,

If the proposed acquisition is approved, it is planned that The Omaha Indemnity Company will be renamed Glencar Insurance Company and will write specialty admitted business in the United States generated by an affiliated general agency, Glencar Underwriting Managers, Inc. Great care will be taken not to compete with the ceding company clients of Hannover Rück SE (hereinafter also, "Hannover Re"). It is anticipated that claims will be adjusted by unaffiliated third-party administrators, subject to the general oversight of Hannover Re Services USA, Inc., another Hannover Re affiliate. Both Glencar Underwriting Managers, Inc. and Hannover Re Services USA, Inc. are based in a suite of offices in Itasca, Illinois. It is anticipated that Glencar Insurance Company will reinsure its business with Hannover Re under a 90% quota share treaty.

In this memorandum, references to The Omaha Indemnity Company will be to "The Omaha Indemnity Company" or the "company" when referring to circumstances, transactions or agreements while the company is under the ownership of Mutual of Omaha Insurance Company and to "Glencar Insurance Company", "GIC", or the "company" when referring to circumstances,

transactions or agreements while the company would be under the ownership of Hannover Finance, Inc.

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 Omaha Indemnity Company is currently a wholly-owned subsidiary of Mutual of Omaha Insurance Company, which is the ultimate controlling person of the Mutual of Omaha Group.

The holding company system of the proposed acquirer (hereinafter also, "Hannover Group") has National Association of Insurance Commissioners (hereinafter, "NAIC") Group Code 517 and presently includes two insurers domiciled in the United States, neither of which is licensed in Wisconsin. The following insurers in the Hannover Group are domiciled in the United States:

1. Hannover Life Reassurance Company of America (FL) (NAIC #88340)
2. Sand Lake Re, Inc. (VT) (NAIC #15887)

As an unlicensed authorized reinsurer in Wisconsin since September 21, 1994, Hannover Life Reassurance Company of America assumes life reinsurance business from Northwestern Mutual Life Insurance Company, Humana Insurance Company, National Guardian Life Insurance Company, and Madison National Life Insurance Company, as well as a very modest amount of accident and health business from Humana Insurance Company.

Sand Lake Re, Inc. is a Vermont special purpose insurance company that is wholly-owned by Hannover Life Reassurance Company of America. It was incorporated during the third quarter of 2015 and received its Vermont certificate of authority on January 4, 2016. It was established for the purpose of assuming affiliated life business in compliance with the NAIC's Actuarial Guideline XLVIII, which became effective January 1, 2015. Sand Lake Re, Inc. is not licensed in Wisconsin, nor is it an unlicensed authorized reinsurer in Wisconsin.

Following the proposed change in control, the company will become a direct, wholly-owned subsidiary of Hannover Finance, Inc. and the succession of control will be as follows:

1. Hannover Rück SE
2. Hannover Finance, Inc. (100% owned by Hannover Rück SE)

It is noted that 50.22% of the equity interests of Hannover Rück SE are owned by an entity named Talanx AG, and that 79.04% of the equity interests of Talanx AG are owned by Haftpflichtverband der Deutschen Industrie V.a.G.

THE KEY CONTRACTS

The Hannover Group represents that there are several contracts that are anticipated as necessary to close the proposed transaction and integrate the operations of the company with that of the acquirer's holding company system.

Approval is sought for the following contracts and corporate governance documents, as part of, or contemporaneous with, the Form A review process:

1. Stock Purchase Agreement among Hannover Finance, Inc. and Mutual of Omaha Insurance Company dated as of September 15, 2017 (hereinafter also, the "Stock Purchase Agreement")
2. 100% Quota Share Reinsurance Agreement by and between The Omaha Indemnity Company, as Ceding Company, and Property and Casualty Company of Omaha, as Reinsurer, effective October 1, 2017 (hereinafter also, the "Loss Portfolio Transfer Agreement")
3. Reinsurance Trust Agreement by and between The Omaha Indemnity Company, Property and Casualty Company of Omaha, and a yet-to-be-determined trustee (hereinafter also, the "Reinsurance Trust Agreement")
4. Administrative Services Agreement made and entered into as of October 1, 2017 by and between The Omaha Indemnity Company and Property and Casualty Company of Omaha (hereinafter also, the "Mutual of Omaha Group Administrative Services Agreement")
5. Guaranty Agreement by and among Mutual of Omaha Insurance Company, as Guarantor; Hannover Finance, Inc., as Buyer; and The Omaha Indemnity Company, as Company (hereinafter also, the "Guaranty Agreement")
6. Administrative Services Agreement by and among Glencar Underwriting Managers, Inc. and Glencar Insurance Company (hereinafter also, the "Hannover Group Administrative Services Agreement")
7. Program Administrator's Agreement by and between Glencar Underwriting Managers, Inc. and Glencar Insurance Company (hereinafter also, the "Program Administrator's Agreement")
8. A 90% Quota Share Reinsurance Agreement between Hannover Rück SE, as Reinsurer, and Glencar Insurance Company, as Ceding Company (hereinafter also, the "Hannover Re Quota Share Agreement")
9. Tax Allocation and Settlement Policy by and among Hannover Finance, Inc. and Glencar Insurance Company (hereinafter also, the "Tax Allocation Settlement Policy")
10. Outsourcing Contract for Services in the Field of Asset Investment and Portfolio Management between Talanx Asset Management GmbH and Glencar Insurance Company (hereinafter also, the "Investment Agreement")
11. Amended and Restated Articles of Incorporation of Glencar Insurance Company
12. Amended and Restated Bylaws of Glencar Insurance Company

The Loss Portfolio Transfer Agreement, Reinsurance Trust Agreement, and Mutual of Omaha Group Administrative Services Agreement were filed with the Wisconsin Office of the Commissioner of Insurance on a Form D dated October 10, 2017, which was filed by Mutual of Omaha Insurance Company on behalf of The Omaha Indemnity Company. A letter declining to disapprove these agreements was issued by the Wisconsin Office of the Commissioner of Insurance on October 11, 2017.

The Hannover Group Administrative Services Agreement, Program Administrator's Agreement, Hannover Re Quota Share Agreement, Tax Allocation Settlement Policy, and Investment Agreement were filed with the Wisconsin Office of the Commissioner of Insurance on a Form D dated October 31, 2017, which was filed by Hannover Finance, Inc. on behalf of Glencar

Insurance Company. A letter declining to disapprove these agreements was issued by the Wisconsin Office of the Commissioner of Insurance on November 22, 2017.

Approval for the Stock Purchase Agreement, Guaranty Agreement, Amended and Restated Articles of Incorporation of Glencar Insurance Company, and Amended and Restated Bylaws of Glencar Insurance Company is sought as part of the approval of the Form A.

Each of these agreements are briefly summarized as follows:

Stock Purchase Agreement

There is a Stock Purchase Agreement among Hannover Finance, Inc. and Mutual of Omaha Insurance Company dated as of September 15, 2017, whereby Hannover Finance, Inc. will purchase 100% of the issued and outstanding common capital stock of The Omaha Indemnity Company. As consideration for this common stock, Hannover Finance, Inc. will pay Mutual of Omaha Insurance Company at the closing an aggregate cash purchase price of \$4,205,000 plus (i) the amount of capital and surplus as regards policyholders on the closing date (as determined under the terms of the Stock Purchase Agreement); minus (ii) an amount equal to the aggregate value of certain excluded assets. Excluded assets are assets that cannot or will not be realized by, or otherwise available to, the company after closing, such as, without limitation, net deferred tax assets or most restricted or pledged assets, and non-admitted assets.

Prior to the closing of the proposed acquisition, Mutual of Omaha Insurance Company will transfer cash and cash equivalents to The Omaha Indemnity Company in the amounts necessary to increase and maintain the company's capital and surplus as regards policyholders to at least \$21 million, and as close as reasonably possible thereto, but in any event not more than \$21.5 million, as of each of December 31, 2017 and the Closing Date. Based upon the Form D dated October 30, 2017, which was filed by Mutual of Omaha Insurance Company on behalf of The Omaha Indemnity Company, the Wisconsin Office of the Commissioner of Insurance declined to disapprove Mutual of Omaha Insurance Company's intention to make a capital contribution to The Omaha Indemnity Company in an amount up to \$9,000,000 during the month of December 2017.

The purchase price for the company will be paid entirely in cash. The source of the funds for the purchase will be Hannover Finance, Inc.'s existing assets and additional funds provided by Hannover Rück SE as needed. No part of the purchase price will be obtained by third party financing. The closing of the proposed acquisition will occur in no event earlier than January 1, 2018 or later than January 31, 2018.

At the closing, in the event that any state insurance license continues to be rescinded, terminated, revoked, non-renewed, suspended or otherwise restricted or impaired and neither seller nor buyer has been notified in writing by the applicable regulatory authority that such impaired status is solely attributable to the identity of the buyer or the buyer's management or business plan, the purchase shall be decreased by \$145,000 for each license so impaired. In the event that any of the company's Georgia, New York, Texas, or Washington insurance licenses are impaired, then the purchase price will be decreased by \$350,000 for each such license impaired. In the event that the company's California insurance license is impaired, then the buyer may either terminate this agreement or reduce the purchase price by \$350,000. The maximum aggregate amount by which the purchase price may be reduced is \$2,000,000. The

purchase price is subject to adjustment in the foregoing amounts if, on the date that is the six-month anniversary of the closing date, any insurance license has become impaired following the closing date, and continues to be impaired, as a proximate result of the actions or omissions of the seller or any of its affiliates.

If the buyer does not close on the purchase of the company for reasons other than those specifically permitted by this agreement, the seller is entitled to liquidated damages of \$500,000. The seller, however, can elect to seek specific performance of the terms of the Stock Purchase Agreement, if the seller forgoes liquidated damages. If the seller terminates the agreement for reasons other than those specifically permitted by this agreement, the buyer is entitled to liquidated damages of \$500,000. The buyer, however, can elect to seek specific performance of the terms of the Stock Purchase Agreement, if the buyer forgoes liquidated damages.

Loss Portfolio Transfer Agreement

There is a 100% Quota Share Reinsurance Agreement by and between The Omaha Indemnity Company, as Ceding Company, and Property and Casualty Company of Omaha, as Reinsurer, effective October 1, 2017, whereby Property and Casualty Company of Omaha agreed to assume all gross liabilities and obligations of any nature, whenever arising or occurring, and arising out of or relating to all policies, binders, riders, endorsements, certificates and contracts of insurance and reinsurance that were issued or renewed by the company through October 1, 2017 or that the company is required by applicable law to initiate or renew after October 1, 2017. The estimated loss and loss adjustment expense reserves ceded under this treaty are approximately \$1.6 million.

As consideration for the reinsurance provided under this agreement by the Reinsurer with respect to the Reinsured Liabilities, the company shall (i) transfer to the Reinsurer admitted assets in an amount equal to the aggregate amount of net unearned premium reserves and loss and loss adjustment expense reserves and (ii) assign rights under third-party reinsurance treaties. The Reinsurer shall be entitled to 100% of the following which are actually received by the company on or after October 1, 2017 to the extent arising from or related to the Reinsured Contracts or Reinsured Liabilities: (i) all premiums and other receivables; (ii) litigation and other claim recoveries from third parties including, without limitation, all salvage and subrogation receipts; (iii) any and all third party reinsurance recoverables and other recoveries from third parties; (iv) any tax refunds or tax credits; and (v) any refunds relating to guaranty fund associations, fair plan or joint underwriting association assessments or similar refunds.

This agreement shall be governed by and construed and enforced in accordance with the laws of the State of domicile of the company without regard to principles of conflict of laws.

Reinsurance Trust Agreement

There is a Reinsurance Trust Agreement by and between The Omaha Indemnity Company, Property and Casualty Company of Omaha, and a yet-to-be-determined trustee. Property and Casualty Company of Omaha will secure its obligations under the Loss Portfolio Transfer Agreement by maintaining on deposit an amount equal to 102% of the gross reserves under the Loss Portfolio Transfer Agreement to secure its initial and ongoing obligations under that agreement. This agreement shall be governed by and construed and enforced in accordance with the laws of the State of Wisconsin without regard to principles of conflict of laws.

Mutual of Omaha Group Administrative Services Agreement

There is an Administrative Services Agreement made and entered into as of October 1, 2017 by and between The Omaha Indemnity Company and Property and Casualty Company of Omaha. Under this Agreement, Property and Casualty Company of Omaha, as Administrator, agrees to provide any and all services that are necessary, required or appropriate to administer and run-off the Reinsured Contracts and the Reinsured Liabilities that are the subject of the Loss Portfolio Transfer Agreement. Apart from the performance by The Omaha Indemnity Company of its obligations under the Loss Portfolio Transfer Agreement and the Stock Purchase Agreement, and in the very limited circumstances specified in this agreement, there shall be no fee or other additional consideration due to the Administrator for the performance of services under this agreement. This agreement shall be governed by and construed and enforced in accordance with the laws of the State of domicile of the company without regard to principles of conflicts of laws.

Guaranty Agreement

There is a Guaranty Agreement by and among Mutual of Omaha Insurance Company, Hannover Finance, Inc., and The Omaha Indemnity Company. Under this Agreement, Mutual of Omaha Insurance Company absolutely, irrevocably, and unconditionally guarantees to Hannover Finance, Inc., The Omaha Indemnity Company, and their respective successors and assigns, the performance and payment by Property and Casualty Company of Omaha of all of its obligations arising under, out of, or in any way related to the Loss Portfolio Transfer Agreement, the Reinsurance Trust Agreement relating to the Loss Portfolio Transfer Agreement, and the Mutual of Omaha Administrative Services Agreement. The guaranty provided in this Guaranty Agreement is a guaranty of performance and payment and not of collection and is in no way conditioned upon any attempt to collect from or enforce performance by Property and Casualty Company of Omaha. The guaranty provided shall remain in full force and effect until the full and complete payment and performance by Property and Casualty Company of Omaha of all the guaranteed obligations. This Guaranty Agreement shall be governed by, construed and enforced in accordance with the laws of the State of Wisconsin, without regard to principles of conflict of laws of any jurisdiction.

Hannover Group Administrative Services Agreement

There is an Administrative Services Agreement by and among Glencar Underwriting Managers, Inc. (hereinafter also, "GUM") and Glencar Insurance Company, which will become effective following the closing of Hannover Finance, Inc.'s acquisition of Glencar Insurance Company. Under this Agreement, GUM will provide all essential administrative services to Glencar Insurance Company, including actuarial, financial and accounting, information technology, preparation of financial statements, and legal and regulatory services. In consideration for the services provided, Glencar Insurance Company will pay GUM 105% of the actual, direct costs, fully loaded for the benefits and taxes attributable to any additional headcount, reasonably incurred by GUM in providing the services. Glencar Insurance Company will pay any applicable sales and use taxes related to the services.

Program Administrator's Agreement

There is a Program Administrator's Agreement by and between Glencar Underwriting Managers, Inc. and Glencar Insurance Company, which will become effective following the closing of Hannover Finance, Inc.'s acquisition of Glencar Insurance Company. Under this Agreement, GUM will act as a soliciting agent of GIC with authority extending to all policies of insurance for all lines of business that GIC is authorized to write in a given state. GUM will, among other matters, solicit, bind risks through its sub-producers, deliver and execute or countersign policies and other necessary documents, appoint and delegate underwriting authority to sub-producers pursuant to GUM's underwriting authority, and maintain accounting for business placed with GIC. In consideration for the services provided, Glencar Insurance Company will pay GUM a commission of 6% plus the commissions due to each sub-producer as reflected in the sub-producer agreements between GUM and each sub-producer.

Hannover Re Quota Share Agreement

Type:	Quota Share
Reinsurer:	Hannover Rück SE
Scope:	All business written during the term of this Agreement
Retention:	10% of all losses, including losses in excess of policy limits and extra contractual obligations, and allocated loss adjustment expenses
Coverage:	90% of all losses, including losses in excess of policy limits and extra contractual obligations, and allocated loss adjustment expenses
Premium:	90% of the net premiums actually received by the company, less the ceding commission
Ceding Commission:	Equal to the total of: (i) a 5% override commission; (ii) 100% of the commission or any other fee or expense paid to GUM and 100% of fees paid to third-party administrators administering claims under reinsured policies; (iii) 100% of the commission paid to the sub-producers by GUM, (iv) 100% of the applicable assessments, boards, bureaus, taxes, licenses and fees on reinsured policies; and (v) 100% of United States Federal Excise Tax, if applicable.
Intermediary:	To the extent the Reinsurer makes any payments due hereunder to an intermediary which is, in turn, to forward those payments on to the company, the Reinsurer assumes all credit risks of the intermediary relating to payment of those amounts to the company.
Termination:	This Agreement may be terminated by either party giving the other at least 180 days prior written notice or immediately by mutual

consent. Accelerated termination is permitted under various conditions suggestive of financial difficulty on the part of either the company or the Reinsurer.

Should any Policy to which this Agreement applies be extended, continued or renewed due to regulatory or other legal restrictions or actions (for any reason, whether or not related to any termination of this Agreement), this Agreement will automatically continue to provide reinsurance coverage on such Policy until such time as said Policy may actually be terminated by the company, in the company's reasonable discretion.

This Agreement generally provides for termination on a run-off basis. However, at the option of the company, this Agreement may be terminated on a cut-off basis.

Notwithstanding anything to the contrary set forth in this Agreement, this Agreement shall not be terminated by the Reinsurer as long as the company's Agreement with Glencar Underwriting Managers, Inc. remains in full force and effect.

Other: This Agreement contains a proper insolvency clause.

Tax Allocation and Settlement Policy

There is a Tax Allocation and Settlement Policy by and among Hannover Finance, Inc. and Glencar Insurance Company, which will become effective following the closing of Hannover Finance, Inc.'s acquisition of Glencar Insurance Company. Under this Policy, Hannover Finance, Inc. will file combined or consolidated tax returns as necessary for each tax year that Hannover Finance, Inc. and GIC are eligible to do so, and act as GIC's agent in the event of any audit, administrative or judicial proceeding pertaining to the combined or consolidated tax returns. Under the Tax Allocation and Settlement Policy, GIC must accurately compute the amount of taxes it would be required to pay for the attendant fiscal year if it had filed a separate return and pay that amount to Hannover Finance, Inc. Hannover Finance, Inc. will pay all of the tax owing for the group.

Investment Agreement

There is an Outsourcing Contract for Services in the Field of Asset Investment and Portfolio Management between Talanx Asset Management GmbH and Glencar Insurance Company. Under this Investment Agreement, Talanx Asset Management GmbH will provide asset investment and management services, but not including real estate-related services, to GIC and to potential branches or subsidiaries of GIC, as applicable. In consideration for the services provided, Glencar Insurance Company will pay Talanx Asset Management GmbH 11 basis points per annum on applicable assets of GIC or any applicable branch or subsidiary of GIC for which services are provided by TAM or a subcontractor of TAM.

Amended and Restated Articles of Incorporation

The Amended and Restated Articles of Incorporation modify and update the current Restated Articles of Incorporation filed with the Wisconsin Office of the Commissioner of Insurance on April 25, 2001. Changes include, but are not limited to:

- changing the name of the company to "Glencar Insurance Company";
- increasing the authorized number of common shares from 40,000 to 100,000 (par value per share remains at \$100); and
- specifically allowing the company's shareholders to take actions by written consent in lieu of a meeting and without prior notice and without a vote.

Amended and Restated Bylaws

The Amended and Restated Bylaws modify and update the current Amended and Restated Bylaws adopted by the Board of Directors of The Omaha Indemnity Company on August 14, 1998 and received by the Wisconsin Office of the Commissioner of Insurance on August 31, 1998. Changes include, but are not limited to:

- reflecting the change of name to "Glencar Insurance Company";
- increasing the governance provisions regarding annual and special meetings of stockholders; and
- increasing the governance provisions regarding officers and their duties.

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

My review of the Form A included a review of the following contracts and corporate governance documents:

1. Stock Purchase Agreement among Hannover Finance, Inc. and Mutual of Omaha Insurance Company dated as of September 15, 2017
2. 100% Quota Share Reinsurance Agreement by and between The Omaha Indemnity Company, as Ceding Company, and Property and Casualty Company of Omaha, as Reinsurer, effective October 1, 2017
3. Reinsurance Trust Agreement by and between The Omaha Indemnity Company, Property and Casualty Company of Omaha, and a yet-to-be-determined trustee
4. Administrative Services Agreement made and entered into as of October 1, 2017 by and between The Omaha Indemnity Company and Property and Casualty Company of Omaha

5. Guaranty Agreement by and among Mutual of Omaha Insurance Company, as Guarantor; Hannover Finance, Inc., as Buyer; and The Omaha Indemnity Company, as Company
6. Administrative Services Agreement by and among Glencar Underwriting Managers, Inc. and Glencar Insurance Company
7. Program Administrator's Agreement by and between Glencar Underwriting Managers, Inc. and Glencar Insurance Company
8. A 90% Quota Share Reinsurance Agreement between Hannover Rück SE, as Reinsurer, and Glencar Insurance Company, as Ceding Company
9. Tax Allocation and Settlement Policy by and among Hannover Finance, Inc. and Glencar Insurance Company
10. Outsourcing Contract for Services in the Field of Asset Investment and Portfolio Management between Talanx Asset Management GmbH and Glencar Insurance Company
11. Amended and Restated Articles of Incorporation of Glencar Insurance Company
12. Amended and Restated Bylaws of Glencar Insurance Company

My review of these agreements is evidenced by the summaries presented earlier in this memorandum. Review of the business plan is evidenced by the narrative in the section of this memorandum captioned, "Future Plans after the Change in Control".

This review of the Form A and the component agreements of the proposed plan, 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 execution of the proposed transactions disclosed in the Form A 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 The Omaha Indemnity Company or any other participating insurer 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

While Hannover Rück SE, commonly known in the United States as Hannover Re, is one of the foremost property and casualty and life, accident and health reinsurers active in the U.S. reinsurance market, the Hannover Group does not have any direct writers of property and casualty insurance domiciled in the United States. Furthermore, Hannover Finance, Inc. has represented that great care will be taken not to compete with the ceding company clients of Hannover Rück SE. This representation would seem quite credible, given that reinsurance is the core business of the Hannover Group. Accordingly, it is evident that the effect of this transaction will not be to create a monopoly or substantially lessen competition in any type or line of business in Wisconsin.

Future Plans after the Change in Control

If the proposed acquisition is approved, it is planned that The Omaha Indemnity Company will be renamed Glencar Insurance Company and will write specialty admitted business in the United States generated by an affiliated general agency, Glencar Underwriting Managers, Inc. Great care will be taken not to compete with the ceding company clients of Hannover Rück SE. It is anticipated that claims will be adjusted by unaffiliated third-party administrators, subject to the general oversight of Hannover Re Services USA, Inc., another Hannover Re affiliate. Glencar Underwriting Managers, Inc. will provide nearly all other general administrative services to operate the company apart from claim adjustment and administration. Both Glencar Underwriting Managers, Inc. and Hannover Re Services USA, Inc. are based in a suite of offices in Itasca, Illinois. It is anticipated that Glencar Insurance Company will reinsure its business with Hannover Rück SE under a 90% quota share treaty.

Glencar Underwriting Managers, Inc. seeks to identify general agencies throughout the United States that produce specialty books of business that meet the Hannover Group's underwriting guidelines. Due diligence reviews include on-site audits for underwriting, accounting, claims, and IT systems, as well as third party background and criminal checks on all directors, officers, and owners of such prospective agencies. The rigor of underwriting and due diligence practiced is such that, since 2011, Glencar Underwriting Managers, Inc. has accepted only 22 of the 272 agency proposals submitted to it.

Due diligence does not end with the initial acceptance. There are at least two stewardship meetings annually with each agency and there are regular audits of their underwriting and financial practices. In 2016, there were 19 audits conducted on Glencar Underwriting Managers, Inc.'s 13 general agency partners.

In addition to opportunities generated by Glencar Underwriting Managers, Inc., the company may also write business generated from leads provided by other affiliates. The company will focus on shorter tail small to mid-sized specialty programs with a broad geographic scope. Long-tail lines, such as worker's compensation, will be avoided.

The business plan makes allowance for the writing of direct business to clear up any difficulties with existing certificates of authority after the long run-off since 1986 and acquire certificates of authority in the states and territories of the U.S. that it would need in order to activate its contingency plan if necessary.

Following the acquisition of control, Glencar Insurance Company's board of directors will consist of the following people:

Name and Residence	Principal Occupation
Dr. Michael B. Pickel Hannover, Germany	Member of the Executive Board Hannover Rück SE E+S Rückversicherung AG
Axel Freiboth Hannover, Germany	Managing Director and Chief Underwriting Officer, North American Treaty Division Hannover Rück SE

Patrick P. Fee Wauwatosa, Wisconsin	President Hannover Finance, Inc.
Mitchell "Mitch" D. Luedtke Wheaton, Illinois	President and Chief Executive Officer Glencar Underwriting Managers, Inc.
Michael T. Paul Wauconda, Illinois	Treasurer, Chief Financial Officer, and Chief Operating Officer Glencar Underwriting Managers, Inc.

Following the acquisition of control, it is anticipated that the officers of Glencar Insurance Company will be as follows:

Name	Office
Patrick P. Fee	President
Catherine F. Hood	Chief Operations Officer and Secretary
Michael T. Paul	Chief Financial Officer and Treasurer

Financial Soundness of Prospective Affiliates

Following the change in control, The Omaha Indemnity Company will become a direct, wholly-owned subsidiary of Hannover Finance, Inc. and the succession of control will be as follows:

1. Hannover Rück SE
2. Hannover Finance, Inc. (100% owned by Hannover Rück SE)

As noted above, 50.22% of the equity interests of Hannover Rück SE are owned by an entity named Talanx AG, and 79.04% of the equity interests of Talanx AG are owned by Haftpflichtverband der Deutschen Industrie V.a.G.

Haftpflichtverband der Deutschen Industrie V.a.G. is a mutual insurance association founded under the laws of Germany on December 7, 1903 by a consortium of six professional associations and 176 companies in the iron and steel industry in order to provide liability insurance to its members. With time, professional associations that were not associated with the iron and steel industry were allowed to join in order to access liability insurance. In 1928, the association expanded into automobile insurance. Since then, product offerings expanded considerably to encompass a broad range of property and casualty and life insurance and pension products. The association owns 79.04% of Talanx AG.

Talanx AG is a management and financial holding company for Germany's third largest insurance group by premium income. Through its subsidiaries, it operates as a multi-brand provider in numerous sectors of the insurance and financial services industry.

Notwithstanding the direct and indirect ownership of Hannover Rück SE equity interests by Talanx AG and Haftpflichtverband der Deutschen Industrie V.a.G., respectively, Hannover Rück SE represents that neither Talanx AG nor Haftpflichtverband der Deutschen Industrie V.a.G. exercise control over the daily operations of Hannover Rück SE.

Hannover Rück SE and its network of companies, with gross premiums of approximately €17billion, is one of the largest reinsurance groups in the world, maintaining relations with more than 5,000 insurance companies in around 150 countries. Its worldwide network consists of more than 100 subsidiaries, branch and representative offices with a total staff of approximately 2,900. As of December 31, 2016, Hannover Rück SE reported assets of €63,528,602,000, liabilities of €53,788,055,000, and total shareholders' equity of €9,740,547,000. Net income for 2016 was €1,171,229,000.

Hannover Finance, Inc., a wholly-owned subsidiary of Hannover Rück SE, is a Delaware-domiciled holding company that has no current active business other than managing its investment portfolio. Hannover Finance, Inc., in unaudited financial statements prepared in accordance with International Financial Reporting Standards, reported assets of \$171,229,000, liabilities of \$7,777,000, and shareholder's equity of \$163,451,000. Net income for 2016 was \$7,617,000.

The financial condition of Hannover Finance, Inc., individually, and the 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.

Change in Control

Completion of the transactions proposed in the Form A will result in a change in control for The Omaha Indemnity Company. The plan would result in the sale of 100% of the outstanding capital stock of The Omaha Indemnity Company to Hannover Finance, Inc.

Competence and Integrity of Prospective Management

Biographical reports were provided for the prospective members of the board and management of Glencar Insurance Company. Review of the composition of the prospective board and management of Glencar Insurance Company 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 and its supplements are sufficient to the transaction.
2. The plan would not violate the law or be contrary to the interests of The Omaha Indemnity Company or its policyholders, or any participating nondomestic insurers and their respective Wisconsin policyholders.
3. After the acquisition of control, neither The Omaha Indemnity 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 Hannover Finance, Inc. 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 The Omaha Indemnity Company. There are no plans or proposals to liquidate the domestic stock insurance corporation, The Omaha Indemnity 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 The Omaha Indemnity 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 The Omaha Indemnity Company, a participating domestic insurer, and Hannover Life Reassurance Company of America, a participating nondomestic insurer licensed in Wisconsin, are such that it is in the interest of their respective policyholders and of the public to permit the proposed plan.

RECOMMENDATION

I recommend that the plan for the acquisition of control of The Omaha Indemnity Company by Hannover Finance, Inc. be approved, subject to the following conditions subsequent:

- (1) The Omaha Indemnity Company, under its intended new name of Glencar Insurance Company, shall consent to a stipulation and order issued by the Office of the Commissioner of Insurance under s. 601.41, Wis. Stat., which shall be in a form substantially similar to that provided in Exhibit 14 in the record of this proceeding, within ten (10) calendar days of the consummation of the proposed change in control.
- (2) Upon consummation of the proposed change in control, Hannover Rück SE shall be regarded as exercising "control" of The Omaha Indemnity Company as "control" is defined by s. 600.03 (13), Wis. Statutes. However, in light of the information and observations submitted, described and/or represented as set forth herein, neither Hannover Rück SE nor either of Haftpflichtverband der Deutschen Industrie V.a.G. or Talanx AG shall be required to file a Form A distinct and subsequent to that filed in the matter of this Case No. 17-C42186 to seek approval for the acquisition of control of The Omaha Indemnity Company.
- (3) Each of the following affiliated corporations, as entities in the proposed succession of control of The Omaha Indemnity 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:
 - (a) Hannover Rück SE
 - (b) Hannover Finance, Inc.

- (4) Within ten (10) calendar days of the consummation of the proposed change in control, The Omaha Indemnity Company shall file Amended and Restated Articles of Incorporation in the form provided as Exhibit 2.9 in the record of this proceeding, which, among other matters, shall change the name of the company to Glencar Insurance Company. The effective date of these Amended and Restated Articles of Incorporation shall be deemed as the date of the consummation of the proposed change in control and the date of their execution by the corporation's President and the date-stamp affixed to them by the Office of the Commissioner of Insurance shall reflect the date of the consummation of the proposed change in control.
- (5) Within ten (10) calendar days of the consummation of the proposed change in control, The Omaha Indemnity Company shall file Amended and Restated Bylaws in the form provided as Exhibit 9.1 in the record of this proceeding. The effective date of these Amended and Restated Bylaws shall be deemed as the date of the consummation of the proposed change in control and the date-stamp affixed to them by the Office of the Commissioner of Insurance shall reflect the date of the consummation of the proposed change in control.
- (6) The Omaha Indemnity Company shall restate its gross paid-in and contributed surplus and unassigned funds (surplus) pursuant to the National Association of Insurance Commissioners' Statement of Statutory Accounting Principles No. 72. Unassigned funds (surplus) shall be reset to zero upon consummation of the proposed change in control.