



DATE: September 1, 2020

TO: Amy J. Malm
Kristin L. Forsberg

FROM: Steven J. Junior

SUBJECT: In the Matter of the Mutual Holding Company Restructuring of SECURA INSURANCE, A Mutual Company (Case No. 20-C43665)

SITUATION

Introduction

On February 24, 2020, SECURA INSURANCE, A Mutual Company (hereinafter also, "SECURA INSURANCE" or the "company") filed an application to restructure to a mutual holding company and a stock insurance company pursuant to ch. 644, Wis. Stat. The application was transmitted under cover of a letter by Noreen Parrett, Parrett & O'Connell LLP.

On March 9, 2020, Noreen Parrett notified the OCI that she was withdrawing her representation of SECURA INSURANCE, A Mutual Company with respect to the pending mutual holding company restructuring effective March 4, 2020 because she was leaving the private practice of law. Ms. Parrett's notification indicated that SECURA INSURANCE retained Foley & Lardner LLP as regulatory counsel for the remainder of the restructuring process.

On May 8, 2020, SECURA INSURANCE, A Mutual Company, filed a revised complete application (the "Application") to restructure to a mutual holding company and a stock insurance company pursuant to ch. 644, Wis. Stat., which it prepared with the advice and assistance of Foley & Lardner LLP.

The final form of the Policyholders Information Booklet was approved on July 22, 2020. Approval of the final form of the Policyholders Information Booklet was required by s. 644.07(6)(b), Wis. Stat. However, approval of the form does not constitute approval of the Application or the plan it was filed to support.

Subject Matter for Consideration

The subject matter for consideration is whether the plan to restructure SECURA INSURANCE, A Mutual Company from a mutual insurance corporation into a mutual holding company and a stock insurance company pursuant to ch. 644.07, Wis. Stat., should be approved.

Section 644.07(7), Wis. Stat., requires the Commissioner of Insurance to approve the mutual holding company plan unless:

- (a) The plan would violate the law or be contrary to the interest of the insureds of SECURA INSURANCE, A Mutual Company, the converting domestic corporation, or of the Wisconsin insureds of any participating nondomestic corporation.
- (b) The plan would be unfair or inequitable to the policyholders of SECURA INSURANCE, A Mutual Company.
- (c) The plan would be contrary to the interests of policyholders or the public.

- (d) The restructuring proposed by the plan would be detrimental to the safety and soundness of the converting insurance company, SECURA INSURANCE, A Mutual Company, or to the contractual rights and reasonable expectations of its policyholders on the effective date of the restructuring.

The Office of the Commissioner of Insurance's review is limited to evaluating the plan to make certain that it meets the standards of the statutes. In performing its duties, the Office of the Commissioner of Insurance (hereinafter also, the "OCI") does not have the authority to substitute its judgement for that of the Board of Directors of SECURA INSURANCE, A Mutual Company and to direct them to pursue an alternate business strategy. If the OCI approves the Application, the ultimate decision about the future organization of SECURA INSURANCE, A Mutual Company will be made, as it should be, by the policyholders of the company at a special meeting.

DESCRIPTION OF THE MUTUAL HOLDING COMPANY PLAN

Overview

Insurers face increased competition from holding company systems directed by banks, mutual fund management companies and retail brokerage firms as part of a trend of deregulation and consolidation of the insurance and financial services industries. The enactment of mutual holding company laws in many states across the country, including Wisconsin, can be viewed as an integral part of this trend. State legislatures as well as the federal government have recognized that it is desirable for mutual insurance companies to have additional options to diversify and compete in global financial services, while preserving their mutual form of organization. The Wisconsin Statutes establish a procedure whereby a mutual insurance company may convert into a stock company owned by a non-insurance mutual holding company, after approval by the mutual insurance company's board of directors, the OCI, and the mutual insurance company's policyholders. This procedure for restructuring under a mutual holding company plan provides an additional means for mutual insurance companies to achieve a more flexible capital structure, while preserving a mutual form of organization.

Sequence of Events

The plan of restructuring could be viewed as involving a seven-step sequence of events. Each of these steps is briefly summarized as follows.

1. The Policyholder Information Booklet is mailed to all policyholders of SECURA INSURANCE, A Mutual Company via U.S. Mail on or about August 5, 2020.
2. The pre-hearing on the class 1 contested case administrative hearing on the restructuring of SECURA INSURANCE, A Mutual Company into a mutual holding company and a stock insurance corporation is held in Madison, Wisconsin on September 3, 2020.
3. The class 1 contested case administrative hearing and public hearing on the restructuring of SECURA INSURANCE, A Mutual Company into a mutual holding company and a stock insurance corporation are held in Madison, Wisconsin on September 3, 2020.
4. A special meeting of SECURA INSURANCE, A Mutual Company's policyholders is held to vote upon the mutual holding company plan on September 15, 2020.
5. On or before the January 1, 2021, SECURA INSURANCE, A Mutual Company shall incorporate SECURA Holdings, Inc. as a Wisconsin business corporation under Chapter 180 of the Wisconsin Statutes.

6. On or before January 1, 2021, SECURA Insurance Holdings, Inc. shall be liquidated and dissolved by the filing of Articles of Dissolution with the Wisconsin Department of Financial Institutions. All of the outstanding stock of SECURA Supreme Insurance Company, together with all other assets of SECURA Insurance Holdings, Inc. remaining after satisfaction of its liabilities, will be distributed to SECURA INSURANCE, A Mutual Company in its capacity as the sole shareholder of SECURA Insurance Holdings, Inc.
7. The following transactions are to occur simultaneously on January 1, 2021, if SECURA INSURANCE, A Mutual Company's policyholders and the OCI approve:
 - a. SECURA INSURANCE, A Mutual Company sponsors the formation of SECURA Insurance Mutual Holding Company and, if it had not done so previously, SECURA Holdings, Inc.
 - b. If it has not occurred previously, SECURA Insurance Holdings, Inc. shall be liquidated and dissolved and SECURA Supreme Insurance Company shall thereby become a direct, wholly-owned subsidiary of SECURA INSURANCE, A Mutual Company.
 - c. Wisconsin's Office of the Commissioner of Insurance issues an amended certificate of authority in recognition of SECURA INSURANCE, A Mutual Company's restructuring to a stock insurance corporation and change of name to SECURA Insurance Company.
 - d. SECURA Holdings, Inc. is issued 100% of the outstanding shares of stock of SECURA Insurance Company and SECURA Insurance Mutual Holding Company is issued 100% of the outstanding shares of stock of SECURA Holdings, Inc.
 - e. SECURA Holdings, Inc. becomes a direct wholly owned subsidiary of SECURA Insurance Mutual Holding Company and SECURA Insurance Company becomes a wholly owned second tier subsidiary of SECURA Insurance Mutual Holding Company.
 - f. Policyholders who are members of SECURA INSURANCE, A Mutual Company on the effective date of the restructuring become members of SECURA Insurance Mutual Holding Company. Membership in SECURA Insurance Mutual Holding Company shall also be granted to policyholders of SECURA Supreme Insurance Company who renew or obtain a policy after the effective date of the restructuring.
 - g. All equity rights of SECURA INSURANCE, A Mutual Company's policyholders in the company are extinguished and replaced with equity rights in SECURA Insurance Mutual Holding Company.

Principal Documents to Effectuate the Restructuring of SECURA INSURANCE, A Mutual Company

The following documents are relevant to the process to effectuate the restructuring of SECURA INSURANCE, A Mutual Company from a mutual insurance company into a mutual holding company and stock insurance company:

1. Mutual Holding Company Plan filed May 8, 2020
2. Exhibit A to Mutual Holding Company Plan filed May 8, 2020 – Resolution of the Board of Directors of SECURA INSURANCE, A Mutual Company dated November 12, 2019, approving the Mutual Holding Company Plan and related transactions
3. Exhibit B to Mutual Holding Company Plan filed May 8, 2020 – Third Amended and Restated Articles of Incorporation of SECURA Insurance Company
4. Exhibit C to Mutual Holding Company Plan filed May 8, 2020 – Third Amended and Restated Bylaws of SECURA Insurance Company
5. Exhibit D to Mutual Holding Company Plan dated filed May 8, 2020 – Articles of Incorporation of SECURA Insurance Mutual Holding Company

6. Exhibit E to Mutual Holding Company Plan filed May 8, 2020 – Bylaws of SECURA Insurance Mutual Holding Company
7. Exhibit F to Mutual Holding Company Plan filed May 8, 2020 – Articles of Incorporation of SECURA Holdings, Inc.
8. Exhibit G to Mutual Holding Company Plan filed May 8, 2020 – Bylaws of SECURA Holdings, Inc.
9. Exhibit H to Mutual Holding Company Plan filed May 8, 2020 – Directors and Officers of SECURA Insurance Mutual Holding Company and SECURA Holdings, Inc.
10. Agreements to which Directors and Officers are Party
11. Amount and Source of Funds Available for Organization and Initial Operating Expenses
12. Director and Officer Compensation
13. Proposed Capital of SECURA Insurance Mutual Holding Company
14. Business Plan of SECURA Insurance Mutual Holding Company
15. Policyholder Information Booklet Relating to the Proposed Mutual Holding Company Plan of SECURA INSURANCE, A Mutual Company
16. Board of Directors' Letter to Policyholders
17. Form of Policyholder Meeting Notice
18. Anticipated Frequently Asked Questions and Responses
19. Proxy Form
20. Procedures for the Conduct of Voting on SECURA INSURANCE, A Mutual Company's Proposal to Convert to a Mutual Holding Company Structure
21. Professional and Administrative Services Agreement to be effective January 1, 2021 by and among SECURA Insurance Mutual Holding Company, SECURA Holdings, Inc., SECURA Insurance Company, and SECURA Supreme Insurance Company

In addition to the foregoing written documents and communications, there was a meeting with representatives of the company and their outside counsel on August 13, 2019 and various telephone conversations with legal representatives of the company to which I was party.

OBSERVATIONS BASED ON REVIEW OF DOCUMENTS AND ON INQUIRIES

Format and Informational Sufficiency of the Filing and its Supplements

The filing was prepared in a format that complies with s. 644.07, Wis. Statutes. 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 of restructuring.

Satisfaction of Licensing Requirements Maintained

After the restructuring, SECURA INSURANCE, A Mutual Company, the converting Wisconsin domestic insurer, will be able to satisfy the requirements for the issuance of a license to write the lines of insurance for which it is presently licensed. No other insurer licensed in Wisconsin will have its license affected in consequence of the proposed restructuring of SECURA INSURANCE, A Mutual Company.

Financial Soundness of the Restructuring Plan

As a mutual holding company, SECURA Insurance Mutual Holding Company will conduct no business operations other than those associated with its role as the sole or majority shareholder of SECURA Holdings, Inc. and, indirectly, SECURA Insurance Company and SECURA Supreme Insurance Company. No material liabilities are anticipated for the mutual holding company and its ongoing business expenses are expected to be paid through receipt of dividends from time to time from funds originating from SECURA Insurance Company. Accordingly, at least in the near term, the capital of SECURA Insurance Mutual Holding Company will essentially be the capital of its indirectly wholly owned stock subsidiary, SECURA Insurance Company.

For this reason, the consolidated financial statements of SECURA Insurance Mutual Holding Company and its subsidiaries after the consummation of the restructuring plan will not differ materially from the financial statements of SECURA INSURANCE, A Mutual Company. The financial impact of the restructuring plan is limited to the expenses associated with the restructuring itself. Such expenses include fees and compensation to attorneys, accountants, and other technical advisers. While such expenses were not insignificant, they were met without detriment to the company's financial soundness. While intangible and difficult to quantify, board and management focus on the restructuring plan has likely placed some amount of burden on the company.

Pursuant to s. 644.07(11), Wis. Stat., "All expenses of the restructuring, including the expenses incurred by the commissioner and the prorated salaries of any involved office staff members of the office of the commissioner of insurance, shall be borne by the converting insurance company". While these expenses have not been fully computed and invoiced, it is expected that total reimbursement to the Office of the Commissioner of Insurance will amount to less than \$20,000.

The restructuring of SECURA INSURANCE, A Mutual Company does not appear to significantly impact its financial soundness for better or worse on a short-term basis. If SECURA Insurance Mutual Holding Company were to engage in any affiliations, acquisitions, and capital raising initiatives made possible by a mutual holding company structure, the proposed transaction potentially could allow the mutual holding company to obtain better terms than if SECURA INSURANCE, A Mutual Company undertook these transactions.

Effect on Competition within the Wisconsin Insurance Marketplace

The mutual holding company restructuring of SECURA INSURANCE, A Mutual Company does not, by itself, result in any change in the market share that it holds in the types and lines of insurance it is presently writing. The restructuring also does not, by itself, result in any change in the manner in which underwriting and pricing is performed, or the executive direction of operations. Accordingly, the effect of the mutual holding company restructuring will not be to create a monopoly or substantially to lessen competition in any type or line of insurance in Wisconsin.

Future Plans following the Restructuring

Founded in 1900, SECURA INSURANCE, A Mutual Company is a mutual property and casualty insurance company domiciled in Wisconsin which is licensed in 27 states and currently writes commercial, personal, farm-agriculture, and specialty lines of business in 12 states. Organized on

November 30, 1995, SECURA Supreme Insurance Company is an indirect, wholly-owned subsidiary of SECURA INSURANCE, A Mutual Company, domiciled in Wisconsin which is currently licensed in 27 states and currently writes principally personal lines business in 13 states.

The Board of Directors of SECURA INSURANCE, A Mutual Company wants to ensure that the company has structural, financial and strategic flexibility to remain strong and competitive. The board of directors has indicated that, in their view, the insurance industry is changing at an ever-increasing pace, and successful companies must be positioned to respond quickly and act decisively in the face of challenges and opportunities. Changes in underwriting, new and evolving technology, and increased access to sophisticated data and analytics are driving business and reinventing the way insurers do business. It is their belief that the company's current structure limits the company's ability to respond and capitalize on the rapidly changing marketplace.

The Board of Directors of SECURA INSURANCE, A Mutual Company believes that restructuring into an insurance mutual holding company system will provide benefits to the company and its current and future policyholders, including but not limited to:

- Maintaining the mutuality that has been part of the company's structure and culture since its inception in 1900, and giving the company the opportunity to pursue expansion through subsidiary companies while maintaining that mutuality;
- Enhancing the company's ability to respond to the future needs of policyholders, prospective policyholders and other company stakeholders in a rapidly changing insurance marketplace through the development of insurance and non-insurance products and services and investment in ancillary and non-insurance businesses;
- Providing an avenue to obtain additional capital that will give the company new debt and equity financing opportunities in the event additional capital is required in the future;
- Place the company in a more flexible position to more expeditiously take advantage of opportunities as they present themselves, such as mergers and acquisitions of other mutual insurance companies; and Increasing the company's competitiveness by enhancing the efficiency, management and financial flexibility of the company's insurance operations.

Chapter 644 of the Wisconsin Statutes allows membership in a mutual holding company to be extended to insurers in which the mutual holding company owns a 51% or greater ownership interest. This allows extension of mutuality throughout the entire combined organization in a way that is not possible when the ultimate controlling person of an insurance holding company system is a mutual insurance company. In the latter instance, only the policyholders of the mutual insurance company itself can fully benefit from mutuality, even though the policyholders of stock subsidiaries also contribute to the financial experience of the enterprise as a whole. As part of the mutual holding company restructuring, the board of directors of SECURA INSURANCE, A Mutual Company has decided to avail itself of the opportunity to extend membership in SECURA Insurance Mutual Holding Company to the policyholders of both SECURA Insurance Company and SECURA Supreme Insurance Company.

From this description, it would seem that SECURA INSURANCE, A Mutual Company does not intend anything that one could construe as disruptive to the positive expectations of its policyholders or that would conflict with the public interest.

Legality and Fairness of the Proposed Plan

My review of the Mutual Holding Company Plan encompassed all of the documents contained within the Application that were listed earlier in this memorandum. This review discloses no basis for denial of the Application on a point of law.

A form of voluntary stipulation and order was developed, which contains certain conditions for the OCI's approval of the mutual holding company restructuring. The board of directors and principal officers for SECURA INSURANCE, A Mutual Company agreed to this voluntary stipulation and order.

Subject to the Petitioner's agreement to this voluntary stipulation and order, which is attached to this memorandum, I can find no basis to conclude that the Mutual Holding Company Plan would be contrary to the interests of the insureds of SECURA INSURANCE, A Mutual Company or of the public. Subject to the stipulation and order, I can find no basis to believe that the Mutual Holding Company Plan will be unfair or inequitable to the policyholders of SECURA INSURANCE, A Mutual Company with respect to their membership interests or rights in surplus.

Change in Control

The restructuring of SECURA INSURANCE, A Mutual Company would result in a change in control of post-conversion SECURA Insurance Company, because the Mutual Holding Company Plan proposes to create two corporations in the succession of control of the restructured SECURA INSURANCE, A Mutual Company. Following the mutual holding company restructuring, SECURA Insurance Mutual Holding Company will become the ultimate controlling person of its holding company system and SECURA Holdings, Inc. will become the immediate parent of SECURA Insurance Company.

Competence and Integrity of Prospective Management

The restructuring of SECURA INSURANCE, A Mutual Company does not result in any change to the officers, directors or employees of the company, so the competence and integrity of management remains intact and unchanged. The current board of directors of SECURA INSURANCE, A Mutual Company will serve on the boards of directors of SECURA Insurance Mutual Holding Company, SECURA Holdings, Inc., SECURA Insurance Company, and SECURA Supreme Insurance Company. It is reasonable to believe that the members of the board of directors of SECURA Insurance Mutual Holding Company will supervise SECURA Insurance Company with same degree of care and diligence as has been the case with SECURA INSURANCE, A Mutual Company.

The current President, Treasurer, and Secretary, respectively, will serve as President, Vice President and Treasurer, and Vice President and Secretary of each of SECURA Insurance Mutual Holding Company and SECURA Holdings, Inc. It is reasonable to believe that these principal officers will continue to exercise the same degree of care and diligence in their additional offices as has been the case with the offices they hold presently with SECURA INSURANCE, A Mutual Company.

The competence and integrity of the persons who will guide the affairs of SECURA INSURANCE, A Mutual Company after the restructuring are such that it will be in the interest of the policyholders and the public to permit the restructuring, including the formation of a mutual holding company.

Summary of Observations

1. The filing was prepared in a format that complies with s. 644.07, Wis. Stat. The information contained in the filing and in the supplementary information obtained by the OCI in connection with review of this filing is sufficient for the OCI to make a decision concerning the proposed plan of restructuring.
2. The plan will not violate the law or be contrary to the interest of the insureds of SECURA INSURANCE, A Mutual Company or of the public.
3. The plan will not be unfair or inequitable to the policyholders of SECURA INSURANCE, A Mutual Company with respect to their membership interests or rights in surplus.

4. The restructuring proposed by the plan would not be detrimental to the safety and soundness of the converting insurance company, SECURA INSURANCE, A Mutual Company, or to the contractual rights and reasonable expectations of its policyholders on the effective date of the restructuring.
5. The legal name of the stock insurance company successor in interest to SECURA INSURANCE, A Mutual Company will be SECURA Insurance Company.
6. After the restructuring, SECURA Insurance Company will be able to satisfy the requirements for the issuance of a license to write the lines of insurance for which it is presently licensed.
7. The effect of the restructuring will not be to create a monopoly or substantially to lessen competition in any type or line of insurance in Wisconsin.
8. The Petitioner has no plans or proposals to liquidate SECURA INSURANCE, A Mutual Company following its conversion to a stock insurance company, to sell its assets (other than investment portfolio transactions in the ordinary course of business), to consolidate or merge it with any other person, or to make any other material change in its business, corporate structure, or management other than described in the plan.
9. The competence and integrity of the persons who will control the operation of the restructured domestic stock insurance corporation, SECURA Insurance Company, and other entities in the succession of ownership control of SECURA Insurance Company, are such that it will be in the interest of the policyholders and the public to permit the restructuring, including the formation of a mutual holding company.

RECOMMENDATION

I recommend that the request for approval of the plan of restructuring, including the formation of a mutual holding company, should be approved, subject to the following conditions:

- a. Petitioner consents to an order issued by the Commissioner under s. 601.41, Wis. Stat., which shall, at a minimum require that the MHC Plan be implemented in accordance with its terms and the Stipulation and Order in Case No. 20-C43666.
- b. SECURA Insurance Mutual Holding Company and SECURA Holdings, Inc. shall consent to the same Stipulation and Order to which the Petitioner consents pursuant to Section 16(a) of this Proposed Order.
- c. SECURA INSURANCE, A Mutual Company and its successors in interest shall ensure that voting procedures with respect to the MHC Plan are in accordance with the voting protocol filed with the Commissioner on May 8, 2020, or such other voting protocols as may be approved by the Commissioner. SECURA INSURANCE, A Mutual Company shall retain the services of a proxy agent to assist it in the receipt, custody, safeguarding, verification and tabulation of proxy forms.
- d. Until the MHC Plan is consummated, the Commissioner shall have the right to alter, suspend or withdraw its approval should any material interim development warrant such action.
- e. SECURA INSURANCE, A Mutual Company and its successors in interest shall comply with the MHC Plan as approved by the Commissioner herein.
- f. The MHC Plan may not be amended without the prior written consent of the Commissioner.

- g. Within 30 days following receipt by its Board of Directors, SECURA INSURANCE, A Mutual Company or its successors in interest shall file the tax opinion from Foley & Lardner LLP, substantially to the effect that (a) the members of SECURA INSURANCE, A Mutual Company will not recognize taxable gain or loss in connection with the mutual holding company restructuring, and (b) neither SECURA Insurance Mutual Holding Company, SECURA Holdings, Inc., nor SECURA INSURANCE, A Mutual Company will recognize taxable gain or loss in connection with the mutual holding company restructuring.
- h. Within 30 days following receipt by its Board of Directors, SECURA INSURANCE, A Mutual Company or its successors in interest shall file the securities law opinion from Foley & Lardner LLP in form and substance satisfactory to the Board of Directors with respect to federal and state securities law matters.