

*In the Matter of the Restructuring of
SECURA INSURANCE, A Mutual Company
to a Mutual Holding Company and
a Stock Insurance Company
Case No. 20-C43665*

**TESTIMONY OF JEFFREY R. KARGUS
VICE PRESIDENT AND CHIEF FINANCIAL OFFICER
SECURA INSURANCE, A MUTUAL COMPANY**

September 3, 2020

MADISON, WISCONSIN

Q: What is your name?

A: Jeffrey R. Kargus.

Q: What positions do you currently hold with SECURA INSURANCE, A Mutual Company? For the sake of brevity, why don't we refer to the Company as "SECURA" or the "Company" during your testimony.

A: I am the Vice President and Chief Financial Officer of SECURA.

Q: How long have you held those positions?

A: I have been Vice President and Chief Financial Officer since December, 2016.

Q: How long have you worked for SECURA, and what other positions have you held with the Company?

A: I started working for SECURA in 2003, and was previously the Controller (from 2003 to 2016). I have been a Vice President since February, 2016.

Q: Were you involved in considering the proposed conversion of SECURA into a mutual holding company structure?

A: Yes, I have been involved in discussions around the conversion since 2018, and have been involved in the preparation of the current Mutual Holding Company Plan.

Q: Mr. Kargus, I'd like to discuss the financial impact of the proposed conversion on SECURA. Do you have the personal knowledge to do that?

A: Yes, I do.

Q: Great. Please describe SECURA's current financial results.

A: As of December 31, 2019, SECURA had a statutory surplus of approximately \$495,774,454 and approximately \$1,415,977,206 in total assets.

Q: Is SECURA rated by any rating agencies?

A: Yes. SECURA is rated by A.M. Best, the largest rating agency in the insurance industry. SECURA is rated "A" (excellent) by A.M. Best, with a stable outlook.

Q: In his testimony, Dan Ferris described SECURA Supreme Insurance Company, let's call it "SECURA Supreme", as SECURA's sole insurance company subsidiary. Does SECURA have financial arrangements with SECURA Supreme other than through indirectly owning stock in it?

A: Yes; SECURA provides management and other services to SECURA Supreme, is party to a tax-sharing agreement with SECURA Supreme, and also reinsures a large portion of the business written by SECURA Supreme under an intercompany pooling agreement.

Q: In his testimony, Dan Ferris identified enhanced access to capital as an advantage of the proposed conversion. Are you knowledgeable about SECURA's capital structure and able to testify to the same today?

A: Yes, I am.

Q: Does SECURA have any current need for additional capital?

A: No, it does not. SECURA is strongly capitalized today and has the financial strength to meet its present and future obligations to its policyholders, employees, and creditors. This is evidenced by SECURA's statutory surplus of approximately \$495,774,454 and its "A" (Excellent) A.M. Best rating. The Mutual Holding Company Plan does not provide for any sale of stock (whether voting or non-voting) or the issuance of any debt securities to any outside investors, and the Company has no plans for any such securities offerings in the future.

Q: Does SECURA's management expect that the proposed conversion will have any effect on the Company's financial strength?

A: The proposed conversion is not expected to negatively impact the Company's financial strength, as shown in the pro forma financials that SECURA has provided to the Wisconsin Office of the Commissioner of Insurance. On the contrary, SECURA and its Board of Directors believe that the proposed conversion will help the Company grow profitably and further strengthen its financial condition in the future. Additionally, if unexpected future events placed significant stress on SECURA's financial strength, the Company would be better positioned to raise additional capital after the proposed Conversion. Accordingly, I submit that the proposed conversion will have a positive effect on the Company's financial strength.

Q: I'd like to discuss the statutory requirement that the proposed conversion be approved by the Wisconsin Commissioner of Insurance before it can go into effect. Are you aware of that standard?

A: Yes, I am aware.

Q: And are you familiar with the findings that the Wisconsin Commissioner of Insurance must make under Chapter 644 of the Wisconsin Statutes as a basis for approving the Mutual Holding Company Plan?

A: Yes.

Q: One of the statutory requirements is that the Mutual Holding Company Plan be fair and equitable to SECURA's policyholders. From a financial perspective, do you think the proposed conversion is fair and equitable to the Company's policyholders?

A: Yes, I do. First, as Dan Ferris described, the proposed conversion will have absolutely no impact on the insurance coverage SECURA provides to its policyholders, other than the fact that such coverage will be provided by a stock insurer rather than a mutual insurer.

This means that the insurance and other benefits provided to, and the premiums charged to, SECURA's policyholders will not be changed as a result of the conversion. Second, as I discussed previously, the proposed conversion will strengthen SECURA's financial position. This is not only fair and equitable to SECURA's policyholders, it is to their distinct advantage.

Q: Another of the statutory requirements is that the proposed conversion not be contrary to the interests of SECURA's policyholders or of the general public. From a financial perspective, do you think the proposed conversion is contrary to the interests of SECURA's policyholders or the general public?

A: No, I do not. The proposed conversion will have no negative impact on the financial strength of SECURA, and the Company does not anticipate that its A.M. Best rating will change or be placed under review. In fact, as I stated earlier, the proposed conversion is good for the strength and security of SECURA, and is accordingly in the best interests of the Company's policyholders and the general public.