



State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

Scott Walker, Governor
Theodore K. Nickel, Commissioner

Wisconsin.gov

October 18, 2016

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MR LANE KENT
PRESIDENT
PREMIER ADMINISTRATIVE SOLUTIONS
13600 ICOT BLVD BUILDING A
CLEARWATER FL 33760

Re: Form A – Acquisition of Control of Southern Guaranty Insurance Company ("SGIC") by Premier Servicing, LLC ("Applicant")

Dear Mr. Kent:

The State of Wisconsin Office of the Commissioner of Insurance ("OCI") has completed an initial review of the above-referenced Form A filing submitted on September 20, 2016 by Premier Servicing, LLC ("Applicant"). Our review identified certain items requiring follow-up, as indicated below. **To ensure that the Form A review continues to move forward, please provide the following information at your earliest convenience:**

1. Form AA – Consent to Jurisdiction: Per s. Ins 40.19, Wis. Adm. Code: "Any person required to file consent to jurisdiction under s. 617.11 (5) Stats. shall do so using form AA contained in the appendix to this chapter." Please submit a form AA consent to jurisdiction form signed by the Applicant.
2. Stock Purchase Agreement: The Stock Purchase Agreement submitted with the Application was not finalized. Please submit a finalized Stock Purchase Agreement, including copies of *all* Exhibits and Schedules (as listed in the Table of Contents).
3. Stock Purchase Agreement – "Related Agreements" and "Intercompany Contracts": The Stock Purchase Agreement states that, at the Closing, General Casualty and SGIC shall enter into the "Related Agreements" (Quota Share Reinsurance Agreement and Administrative Services Agreement).

In addition, the Stock Purchase Agreement states that each "Intercompany Contract" as listed on Schedule 4.8(c), will be unwound, amended or terminated to remove SGIC as a party as of or prior to the closing date.

Please indicate whether SGIC plans to submit a Form D to OCI for non-disapproval of these transactions prior to Closing.

4. Identify and Background of the Applicant (Item 2): Please provide the following information:
 - a) A narrative discussing the nature of the Applicant's business operations since inception,
 - b) A copy of the Applicant's LLC Formation Document,
 - c) A copy of the Applicant's LLC Operating Agreement,
 - d) A narrative discussing the nature of any court proceedings against the Applicant over the past 10 years, including the title of the court, the case number, the date the proceeding commenced, and the date of the final decision or settlement (please provide a copy of the Final Decision or Settlement Agreement).

5. Identify and Background of Individuals Associated with the Applicants – Ultimate Controlling Persons/Affiliates & Related Parties (Item 3):

a) Ultimate Controlling Persons: Item 3 indicates that Dale F. Schmidt owns 100% of the Applicant's voting stock through trusts for which Dale F. Schmidt is the grantor. Please indicate the % of the Applicant's voting securities/interests owned directly by Mr. Schmidt. In addition, please list the names of all trusts that own the Applicant's voting securities/interests. For each trust, please indicate or provide:

- 1) The % of the Applicant's voting securities/interests owned by the trust
- 2) The names of all Grantors
- 3) The name of the Trustee
- 4) The names of the Beneficiaries
- 5) Whether the Trust is revocable or irrevocable

b) Affiliates/Related Parties: Other than the trusts discussed in 5(a), please list the identities of all entities that are owned (10% or more of the voting securities/interests), managed by, or under common control of the ultimate controlling persons (Mr. Dale F. Schmidt and the trusts identified in #5). For each entity listed, please state:

- 1) The % ownership (by either Mr. Schmidt and/or the trusts)
- 2) Whether the entity shares common management with the Applicant
- 3) The nature of the entity's business
- 4) The state of domicile
- 5) Whether the entity will have any management/administrative relationships with SGIC
- 6) A narrative discussing the nature of any court proceedings against the entity over the past 10 years, including the title of the court, the case number, the date the proceeding commenced, and the date of the final decision or settlement (please provide a copy of the Final Decision or Settlement Agreement).

[In your response, please include the following entities: CD Paradise Management, LLLP; Community Health Solutions of America, Inc., Premier Administrative Solutions, Inc., and PEOPLE Premier, Inc.]

c) Administrative/Management Services Agreements:

- 1) Please discuss whether SGIC's management and administrative functions will be performed by its own employees.
- 2) Please list any administrative/management services that will be provided to SGIC by the Applicant (or any other affiliate/related party), or a third party vendor, and provide copies of any proposed administrative/management/third party vendor services agreements.

6. Background Reports: Please provide Third Party Verification Reports [Background Reports], from a vendor that complies with the UCAA Best Practices/Guidelines for Background Investigations, for the following individuals:

- a) Dale F. Schmidt
- b) Lane B. Kent
- c) Barbara L. Freeman
- d) Michael V. Barton

A list of vendors that comply with the UCAA Best Practices/Guidelines for Background Investigations can be found on the NAIC's UCAA website at:

- http://www.naic.org/documents/industry_ucaa_third_party.pdf

7. Business Plan: The Business Plan states that the Applicant's initial offerings will be liability and legal defense coverage for special medical professions (initially expected to include: podiatry, psychiatry, and dermatology), but it is expected that other offerings will include coverage for cyber liability, liability with large self-insured retentions and related medical exposures, critical illness, Medicare supplements, and accidental medical expense policies. Please provide the following information and/or documentation:

a) Experience: Please provide a narrative discussing the experience of the Applicant's principals (nature of, and # of years) with respect to the marketing, underwriting, premium billing, policy administration, claims handling and reserving of the following lines of insurance:

- 1) Medical Malpractice (include the specialties in which the Applicant has experience)
- 2) Cyber Liability Insurance
- 3) Critical Illness
- 4) Medicare Supplement
- 5) Accidental Medical Expense

b) Liability with large self-insured retentions: Please explain what the Applicant means by "Liability with large self-insured retentions"? [i.e. – if the Applicant is referring to a captive arrangement, please discuss in detail the nature of the captive arrangement.]

c) Medical Malpractice Insurance:

- 1) Please discuss the coverages/policy limits the Applicant intends to offer in Wisconsin, and provide a sample policy.
- 2) Please discuss how the Applicant's policies will conform to the requirements set-forth in Chapter 655 of the Wisconsin Statutes.

d) Reinsurance Program: Please provide a narrative discussing on the Applicant's proposed reinsurance program for business ceded, including: retentions, maximum risks, types of contracts (such as pro rata or excess or loss), and any other information which may be material to the planned reinsurance program.

8. Applicant's Financial Statements: Form A – Item 12 requires the applicant to file the applicant's annual financial statements for the preceding 5 fiscal years, and similar information covering the period from the end of such person's last fiscal year. The annual financial statements of the applicant shall be accompanied by the certificate of an independent public accountant to the effect that such statements present fairly the financial position of the applicant and the results of operations for the person's last fiscal year, in conformity with generally accepted accounting principles.

In lieu of submitting certified audited financial statements for 2015, the Applicant submitted its 2015 Tax Return (Form 1120S), which did not include a completed Form L (Balance Sheet).

- a) Please submit a copy of the Applicant's certified audited financial statements for 2015, or alternatively, explain why certified audited financial statements for 2015 are not available.
- b) Please provide the Applicant's balance sheet and year-to-date income statement, as of 9/30/16, compiled by a certified public accountant.
- c) Please explain why the Applicant's Ordinary Business Income dropped so significantly from Calendar Year 2014 to 2015, and why the Applicant's 2016 year-to-date Profit & Loss statements do not report any revenues.

9. Pro Forma Financial Statements ("SGIC"): Our review of the 3-year pro forma financial statements submitted with the application identified the following issues:

a) Balance Sheet:

- 1) The Admitted Assets and Capital and Surplus lines items appear to be reported in thousands, however, the Liabilities appear to be reported in whole numbers.
- 2) In addition, for comparison purposes and continuity, the Balance Sheet should include the projected Assets, Liabilities and Capital and Surplus immediately following the closing of the acquisition (e.g. Year-End 2016, or Beginning of Year 2017).

Please provide revised projections that correct the reporting error noted in 9-a-1, and include an additional column showing the Assets, Liabilities and Capital and Surplus immediately following the Closing.

b) Assumptions: The pro forma financial statements submitted with the application did not include the underlying assumptions from which the financial projections were derived.

Please provide the underlying assumptions supporting the figures reported in the financial projections (and the data source from which those assumptions were derived), including but not limited to:

- How will the Applicant achieve penetration in the highly competitive medical malpractice insurance market, where overall net premiums written declined by 3.5% in 2015?
- What are the underlying assumptions for the projected Direct Premiums growth rate from 2017 – 2019?
- What are the underlying assumptions for the projected Net Loss and Loss Adjustment Expense ratios for 2017 – 2019?
- The Form A states that SGIC will have █████ in capital at the closing of the acquisition. How will capital grow from █████ at Closing to █████ (as projected for year-end 2017)?

c) Feasibility Studies: Please discuss whether any third party feasibility studies were performed in preparing the business plan and the financial projections, and provide a copy of any such studies.

10. Capitalization: The Form A indicates that, prior to Closing, General Casualty will cause SGIC to transfer assets, by dividend or distribution, to General Casualty such that SGIC has █████ in capital at the closing of the acquisition. Please discuss:

- a) Does SGIC intend to submit to OCI an extraordinary dividend request prior to closing?
- b) Please explain why the Applicant believes that an initial capitalization of █████ will be sufficient, in light of the lines of business the Applicant intends to write (e.g. medical malpractice, cyber liability, etc.)?
- c) Please discuss whether the Applicant is committed to maintaining a target level of capital and surplus for SGIC (e.g. – a threshold RBC ratio), and if so, how does the Applicant intend to ensure that the target level of capital and surplus is maintained at all times (i.e. – will there be any formal written guarantees)?

11. Consideration: The Form A states that, as consideration for SGIC's common stock, the Applicant will pay to General Casualty at the closing an aggregate cash purchase price of [REDACTED] for each state license in good standing, plus the Statutory Capital of SGIC prior to the Closing.

- a) Please provide an estimate as to the dollar amount of the consideration that will be paid at Closing.
- b) Please provide evidence that the Applicant has sufficient cash on hand to pay the estimated amount of consideration at Closing.

Please mail all information to my attention at the address listed at the top of this letterhead. [Or alternatively, you may email your response to: kristin.forsberg@wisconsin.gov.] Please feel free to call me at (608) 266-9896 should you have any questions.

Sincerely,



Kristin L. Forsberg, CPA, CFE
Advanced Examiner
Bureau of Financial Analysis and Examinations

