



State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

Scott Walker, Governor
Theodore K. Nickel, Commissioner

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DATE: February 15, 2017
TO: Rebecca Easland
FROM: Richard Hinkel
SUBJECT: Form A – Acquisition of Control of a Domestic Insurer:
Southern Guaranty Insurance Company [Case No. 16-C41485]

Form A filing contacts:

Lane Kent Premier Servicing, LLC. 13600 ICOT Boulevard, Building A Clearwater, Florida 33760 Telephone: (727) 266-9958 Email: lkent@premieradministrativesolutions.com
William J. Toman, Esq. Quarles & Brady LLP 33 East Main Street, Suite 900 Madison, Wisconsin 53703 Telephone: (608) 283-2434 Email: william.toman@quarles.com

Form A Exhibits:

Table with 2 columns: Exhibit ID and Description. Includes items like Form A Cover Letter, Acquisition of Control, Draft Stock Purchase Agreement, Business Plan, Organization Chart, etc.

Note: In the Application cover letter dated 9/16/16, the Applicant requested confidential treatment for all of the above exhibits (redacted versions of the Form A and Stock purchase agreements were provided), stating:

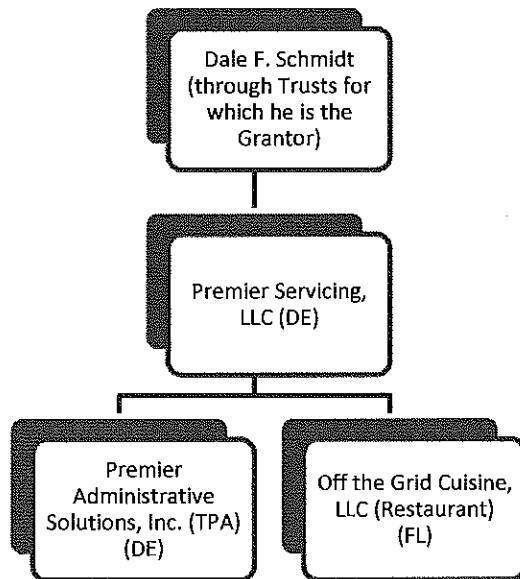
[A]ll pages marked 'Confidential', including but without limitation, the Form A, Biographical Affidavits, and Financial Statements, contain proprietary and confidential information, including "trade secrets" as defined in Wis. Stat. §134.90. Pursuant to Wis. Stat. §601.465, we are requesting confidential treatment of this information, and so it has been redacted from the Public Form A. The Confidential Form A is unredacted and includes all information and materials for which we are requesting confidential treatment."

Background

Parties to the Transaction:

The Acquirer/Applicant:

- Premier Servicing, LLC (“Applicant”): The Applicant is a privately held Delaware Limited Liability Company located in Clearwater, Florida. The principal business of the Applicant and its affiliates is providing administrative and customized care services to niche medical markets across the United States.



The Domestic Insurer to be Acquired:

- Southern Guaranty Insurance Company (“SGIC” or the “Company”): Located in Sun Prairie, Wisconsin, SGIC is a Wisconsin-domiciled stock property and casualty insurer that was incorporated in 1952. SGIC is currently licensed in 9 states, and is a wholly-owned subsidiary of General Casualty Company of Wisconsin (“General Casualty”). The Company is a member of the QBE insurance group, whose ultimate parent company is QBE Insurance Group Limited.

As of June 30, 2016, the Company wrote \$9K of direct premiums. Effective January 1, 2016, the Company participates in the QBE North America Pooling Agreement, pursuant to which, SGIC cedes 100% of direct premiums to the pool, and assumes 0% back.

The Proposed Transaction:

The Applicant intends to acquire control of SGIC by acquiring 100% of the issued and outstanding stock of SGIC pursuant to a Stock Purchase Agreement (the “Agreement”) dated 11/4/16, by and between General Casualty and the Applicant. **[See Exhibit A]**

As a result of the acquisition of all issued and outstanding stock of SGIC (the “Acquisition”), the Applicant will acquire the power to exercise all voting rights in the governance of SGIC. The key terms and conditions governing the Acquisition (as stated in the Agreement), are set-forth below:

- Common Stock to be Acquired: As of the date of the Agreement, there were 2,500,000 shares of common stock of SGIC issued and outstanding. [At the closing, the Applicant will acquire all of SGIC’s common stock, and will thereby acquire control of SGIC.]
- Quota Share Reinsurance Agreement: Prior to the closing of the Acquisition, SGIC and General Casualty will enter into a quota share reinsurance agreement (the “Reinsurance Agreement”) whereby General Casualty will: (i) 100% reinsure all of the liabilities of SGIC relating to policies issued by SGIC prior to the closing (including any renewals of the pre-closing policies which SGIC is obligated by contract or applicable law to issue after the closing of the Acquisition), and (ii) administer, in all respects at its cost, the pre- and post-closing policies.
- Transfer of Assets: Prior to the closing, and subject to receipt of regulatory approval, General Casualty will cause SGIC to transfer assets, by dividend or distribution, to General Casualty, such that SGIC has approximately [REDACTED] in capital at the closing of the Acquisition.
- Consideration: As consideration for the common stock of SGIC, the Applicant will pay to General Casualty an aggregate cash purchase price of [REDACTED] for each state license in good standing, plus the Statutory Capital of SGIC as of prior to the closing (the “Purchase Price”, as set-forth in the Agreement).

The SPA was amended twice to extend the closing date.

It is anticipated that the Acquisition will occur on February 28, 2017 (the date on which the last of the closing conditions are expected to be satisfied or waived, or on such other date as the Applicant and General Casualty may mutually agree in writing, subject to the satisfaction or waiver of all conditions precedent as set-forth in the Agreement (including the approval of this Form A by OCI).

Form A Filing - Summary

Item 1: Method of Control

The Applicant intends to acquire control of SGIC in accordance with the terms and conditions set-forth in the Stock Purchase Agreement (the "Agreement") dated 11/4/16 between the Applicant and General Casualty. [See above for a discussion of the Agreement's key terms and conditions.]

Item 2: Identity and Background of the Applicants

The business address of the Applicant is:

Premier Servicing, LLC
13600 ICOT Boulevard, Building A
Clearwater, FL 33760

An organizational chart showing the Applicant's holding company structure (including pending acquisitions) was included as **Exhibit C**.

According to the Form A, there are currently no involuntary court proceedings involving a reorganization or liquidation pending against any of the entities shown in Exhibit C.

Item 3: Identity and Background of Individuals Associated with the Applicants

Directors and Executive Officers: The Applicant's directors and executive officers are:

- Dale F. Schmidt (Chairman, CEO, CFO and Beneficial Owner)
- Lane B. Kent (President)
- Barbara L. Freeman (EVP of Operations)
- Michael V. Barton (EVP of Investments)

Biographical Affidavits were reviewed for each of the officers and directors listed. The following exceptional responses were noted:

- [Kent – Civil Case]: Insurance Administrative Solutions, LLC v. Lane B. Kent, Circuit Court for the Sixth Judicial Circuit in and for Pinellas County, FL – Case No. 16-002736-CI.
Synopsis:

On April 26, 2016, Insurance Administrative Solutions, LLC ("IAS") filed a Verified Complaint for Injunctive Relief and Damages (the "Complaint") against Mr. Kent as a result of certain disputed facts surrounding Mr. Kent's prior employment with IAS. The Complaint seeks both monetary damages and injunctive relief.

The Complaint alleges that Mr. Kent accessed and copied confidential IAS documents to his personal Dropbox account without authorization before and after

his employment as President of IAS. IAS alleges that this unauthorized copying violates the Florida Uniform Trade Secrets Act and Mr. Kent's confidentiality clause in his employment agreement with IAS.

- [Schmidt]: Business Transactions Case: Smalley, Russ v. Dale F. Schmidt (Case No. 13-009864-CI; Filing Date: 10/21/13; Court: Pinellas, FL County Court; No future court date scheduled). (Schmidt was dismissed as a defendant)

Item 4: Nature, Source and Amount of Consideration

The Applicant will purchase SGIC in exchange for consideration which shall be the sum of [REDACTED] for each state license in good standing plus the statutory capital of SGIC as of the closing date (approximately [REDACTED]). [Estimated purchase price: [REDACTED].] The source of the funds for the purchase will be the Applicant's cash reserves; no part of the purchase price will be obtained through third party financing.

The Purchase Price was a result of arms' length negotiations between the parties. The Applicant and SGIC were represented by independent financial and legal advisors in the negotiations.

Item 5: Acquiring Party's Future Plans for Insurer

The Applicants intend to cause the directors and officers of SGIC to be replaced by the following persons:

<u>Officers:</u>	<u>Directors:</u>
Dale F. Schmidt (Chairman, CEO, CFO)	Dale F. Schmidt
Lane B. Kent (President)	Lane B. Kent
Michael V. Barton (EVP - Investments)	Michael V. Barton
Barbara L. Freeman (EVP - Operations)	

Below is a summary of the Applicant's Business Plan [**Exhibit B**]:

- Products/Territory: SGIC's initial product offerings will include critical illness, Medicare Supplement, and accident only medical expense policies. SGIC will also seek to expand its geographic territory to include markets in contiguous areas, and eventually, countrywide.
- Organizational Structure: A functional organizational chart showing how the Applicant's critical functions will be organized was included as **Exhibit C**.
- Sales Techniques: At this time, it is expected that SGIC will only use independent agents that the company has appointed, who will be overseen by SGIC's field representatives.
- Marketing/Advertising: SGIC plans to market its products through its independent agents, advertising, and through strategic alliances with trade associations. Advertising will be done through specialty magazines and insurance publications. All marketing efforts will be approved by SGIC's President.

- Underwriting: Only the SGIC Underwriting Dept. will have the power to bind policies. Underwriters will be trained on the Company's underwriting guidelines by the Underwriting Officers and/or Managers.
- Claims: SGIC will use licensed independent claims adjusters to review and adjust claims. The independent adjusters will be managed by the Company's Vice President of Claims.

Except as otherwise described herein, the Applicant has no current plans or proposals to cause SGIC to declare an extraordinary dividend, to liquidate SGIC, to sell any of SGIC's assets, to merge SGIC with any person or persons or to make any other material change in SGIC's business operations or corporate structure.

Item 6: Voting Securities to be Acquired

As a result of the Acquisition, the Applicant will acquire all of the issued and outstanding shares of the common stock of SGIC, which will consist of 2,500,000 shares as of the date of closing.

Item 7: Ownership of Voting Securities

Other than as set forth in the Stock Purchase Agreement, neither the Applicant nor any of its affiliates, nor any of the persons listed in Item 3, have a beneficial interest in, or the right to acquire a beneficial interest in, the voting securities of SGIC.

Item 8: Contracts with Respect to Voting Securities of the Insurer

Except for the Stock Purchase Agreement, there are no contracts, arrangements or understandings directly or indirectly related to any voting securities of SGIC to which the Applicant, its affiliates, or any person listed in Item 3 is a party.

Item 9: Recent Purchases of Voting Shares

There have been no direct or indirect purchases of any voting securities of SGIC by the Applicants, their affiliates, or any person listed in Item 3 during the twelve calendar months preceding the filing of this Form A.

Item 10: Recent Recommendations to Purchase

Except for the Stock Purchase Agreement, neither the Applicant, its affiliates, or any other person listed in Item 3, or to the knowledge of the Applicant, any other person, has made any recommendations to other to acquire any shares of the voting securities of SGIC during the twelve calendar months preceding the filing of this Form A.

Item 11: Agreements with Broker-Dealers

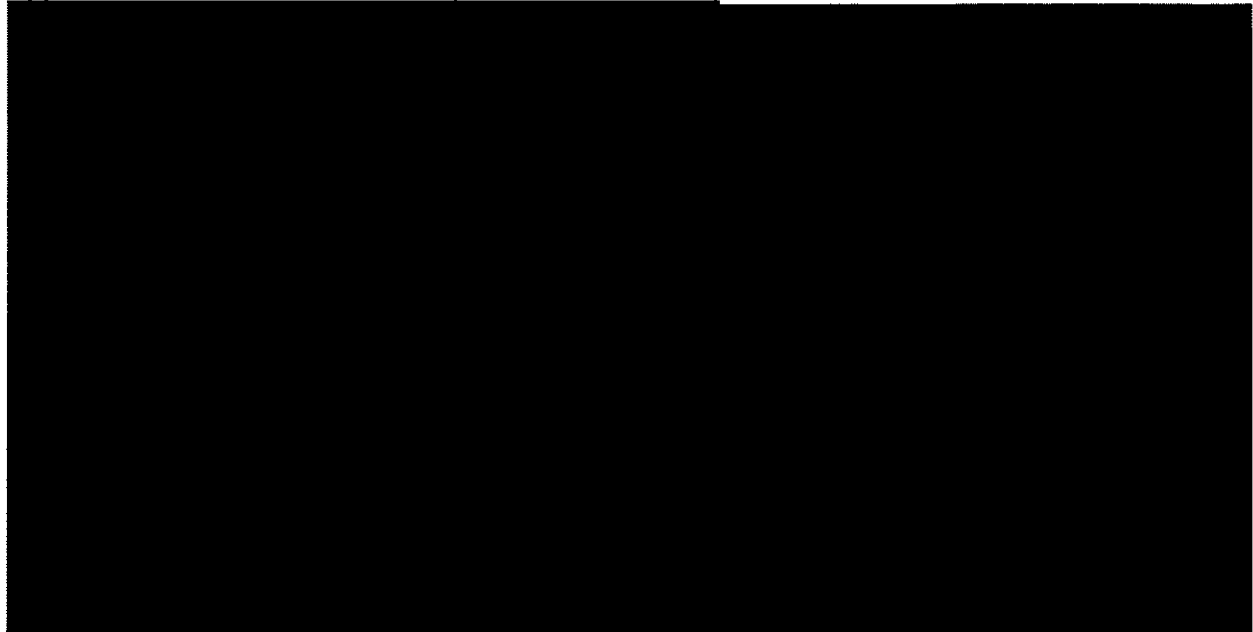
There are no agreements, contracts, or understandings with any broker-dealer as to the solicitation of voting securities for tender.

Item 12: Financial Statements (Applicant) and Pro Formas (SGIC)

Applicant's Financial Statements:

In lieu of submitting certified audited financial statements for the preceding 5 fiscal years, the Applicant submitted its Tax Returns (Form 1120S) for 2011 - 2015. Selected highlights from those tax returns are summarized below:

Applicant's 5-Year Financial Trend (Per IRS Form 1120S):



SGIC's Pro Forma Financials:

(\$'s in 000's)

	2017	2018	2019	2020	2021
<i>Revenue</i>					
Earned Premium	█	█	█	█	█
Investment Earnings	█	█	█	█	█
Ceding Allowance	█	█	█	█	█
Commission and Expense Allowance	█	█	█	█	█
<i>Total Revenue</i>	█	█	█	█	█
<i>Benefits</i>					
Incurred Claims	█	█	█	█	█
Increase in Active Life Reserves	█	█	█	█	█
<i>Total Benefits</i>	█	█	█	█	█
<i>Expenses</i>					
Commissions	█	█	█	█	█
Acquisition Expense	█	█	█	█	█
Maintenance Expense	█	█	█	█	█
Premium Tax	█	█	█	█	█
Corporate Overhead	█	█	█	█	█
<i>Total Expenses</i>	█	█	█	█	█
<i>Stat. Profit Before FIT</i>	█	█	█	█	█
<i>FIT</i>	█	█	█	█	█
<i>Stat. Profit</i>	█	█	█	█	█

	2017	2018	2019	2020	2021
Assets	██████	██████	██████	██████	██████
<i>Liabilities</i>					
Unearned Premium Reserve	██	██	██	██	██
Active Life Reserve	█	█	█	█	█
Claim Reserve	██	██	██	██	██
<i>Total Reserve Balance</i>	██	██	██	██	██
Total Surplus	██████	██████	██████	██████	██████
NAIC RBC	█	█	█	█	█
C-1 Asset Risk	██	██	██	██	██
C-2 Insurance Risk	██	██	██	██	██
C-3 Interest Rate Risk	█	█	█	█	█
C-4 Business Risk	█	██	██	██	██
ACL RBC	██	██	██	██	██

Item 13: Agreement Requirements for Enterprise Risk Management

The Applicants agree to provide the information required by the Form F within fifteen days after the end of the month in which the acquisition of control occurs.

Wisconsin Specific Requirements

The following checklist addresses the requirements of s. 611.72 (3), Wis. Stat. (Grounds for Disapproval):

The Plan would not violate the law, or be contrary to the interests of the insureds of any participating domestic corporation or of the Wisconsin insureds of any participating nondomestic corporation,

And that:

- a) After the change of control, the domestic stock insurance corporation, or any domestic stock insurance corporation controlled by the insurance holding corporation, would be able to satisfy the requirements for the issuance of a license to write the line or lines of insurance for which it is presently licensed.

Did the Filing Adequately Address this Concern?

As indicated in Item 5, the Applicant does not plan to cause SGIC to declare an extraordinary dividend, to liquidate SGIC, to sell the assets of SGIC to or merge SGIC with any person or persons or to make any other material change in its corporate structure. The proposed business operations, management, and capital level will allow SGIC to satisfy the requirements for the issuance of a license to write the line or lines of insurance for which it is proposing in the business plan.

- b) The effect of the merger or other acquisition of control would not be to create a monopoly or substantially lessen competition in insurance in this state.

Did the Filing Adequately Address this Concern?

Comments: The Applicant is not an insurance company, and is not part of an insurance company holding company system. As such, the acquisition would have no impact on the competitive market in Wisconsin.

- c) The financial condition of any acquiring party is not likely to jeopardize the financial stability of the domestic stock insurance corporation or its parent insurance holding corporation, or prejudice the interests of its Wisconsin policyholders.

Did the Filing Adequately Address this Concern?

Comments: There are no issues or concerns that would suggest that the financial condition of the Applicant and its affiliates is likely to jeopardize the financial stability of SGIC or prejudice the interests of its Wisconsin policyholders.

- d) The plans or proposals which the acquiring party has to liquidate the domestic stock insurance corporation or its parent insurance holding corporation, sell its assets, merge it with any person or make any other material change in its business or corporate structure or management, are fair and reasonable to policyholders of the domestic stock insurance corporation or in the public interest.

Did the Filing Adequately Address this Concern?

As indicated in Item 5, Applicant does not plan to cause SGIC to declare an extraordinary dividend, to liquidate SGIC, to sell the assets of SGIC to or merge SGIC with any person or persons or to make any other material change in its business operations or corporate structure or management, except as otherwise described in the Form A. Applicant's plans to make material changes in SGIC's business operations or corporate structure or management do not raise any concerns about being fair and reasonable to policyholders of SGIC or in the public interest.

- e) The competence and integrity of those persons who would control the operation of the domestic stock insurance corporation or its parent insurance holding corporation are such that it would be in the interest of policyholders of the corporation and of the public to permit the merger or acquisition of control.

Did the Filing Adequately Address this Concern?

The biographical information does not raise any concerns regarding the competence and integrity of the officers and directors of the Applicant.

Application Follow-up

The Applicant, per letter dated November 10, 2016 (including Exhibits), responded to the issues identified in OCI's October 19, 2016 application follow-up letter as follows:

1. Form AA – Consent to Jurisdiction: Please submit a form AA consent to jurisdiction form signed by the Applicant.

Applicant Response: The Applicant submitted a properly executed Form AA (Exhibit A).

2. Stock Purchase Agreement: Please submit a finalized Stock Purchase Agreement, including all Exhibits and Schedules (as listed in the Table of Contents).

Applicant Response: The Applicant submitted an executed Stock Purchase Agreement between Premier Servicing, LLC and General Casualty Company of Wisconsin (including Exhibits and Schedules) (Exhibit B).

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

Applicant Response: The Applicant submitted the proposed Administrative Services Agreement between SGIC and General Casualty, and the proposed Loss Portfolio Transfer and Quota Share Reinsurance Agreement between SGIC and General Casualty (Exhibit C).

4. Identify and Background of the Applicant: The Applicant responded as follows to 4 (a) – 4 (d):

(a) Narrative discussing the Applicant’s business operations since inception: Premier Servicing, LLC, with its inception date of March 22nd, 2007, has been utilized as an inactive holding company used to accrue and save funds for S Corp tax liabilities. In 2016, Premier Servicing purchased Premier Administrative Solutions, Inc. from common ownership, and created Off the Grid Cuisine, LLC.

(b) Certificate of Formation: The Applicant submitted the Certificate of Formation for Premier Servicing, LLC (dated March 22, 2007), which was certified by the Delaware Secretary of State (Exhibit D).

(c) LLC Operating Agreement: The Applicant submitted the Premier Servicing, LLC’s Operating Agreement (Exhibit E). The LLC’s sole member is Dale F. Schmidt.

(d) Court Proceedings: The Applicant submitted a list of court proceedings against the Applicant over the past 10 years, along with the court documents (Exhibit F).

5. Identity and Background of Individuals Associated with the Applicants – Ultimate Controlling Persons and Related Parties: The Applicant responded as follows to 5 (a) – 5 (b):

(a) Ownership:

Applicant Response: Dale F. Schmidt Irrevocable Trust dated December 21, 2012 owns 100% of the voting securities/interests of Premier Servicing, LLC. [Dale F. Schmidt is the Grantor. [REDACTED]

and [REDACTED] are the Trustees. [REDACTED]

[REDACTED], and [REDACTED]

[REDACTED] are the Beneficiaries.]

(b) Affiliates/Related Parties:

Applicant Response: The Applicant provided an affiliate and related parties matrix (Exhibit G), and a listing of court proceedings against those entities over the past 10 years (Exhibit F).

(c) Administrative/Management Services Agreements:

Applicant Response: SGIC will manage the company with a blend of its own employees, shared resources with wholly owned entities and certain outsourced services. Key executive and management positions will be employees, including: President, Chief Operating Officer, Chief Actuary, Marketing Executives, Financial Controller, Claims, Underwriting, Sales, Distribution, and Product Development.

Shared resources with other wholly owned entities will include: CIO, CFO, and executives for Medical Director, Compliance, Privacy/Security, IT infrastructure, Application Development and Operations. All back-office administrative functions will be performed by Premier Administrative Solutions, Inc. ("PAS"), a wholly-owned subsidiary of the ultimate controlling entity. [See proposed Administrative Services Agreement between PAS and SGIC (Exhibit H).]

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: Dale F. Schmidt, Lane B. Kent, Barbara L. Freeman, and Michael V. Barton.

Applicant Response: Third Party Verification reports were provided electronically direct from the vendor "AIR Pre-Employment Screening Services". The Background Reports disclosed pending cases against Dale Schmidt and Lane Kent. Schmidt was dismissed as a defendant in his case and Kent's case is pending.

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, etc. Please provide a narrative discussing the experience of the Applicant's principals (nature of, and # of years) with respect to the administration of insurance in the following lines: Medical Malpractice, Cyber Liability, etc.

a) Applicant's Response:

- Medical Malpractice: Key principle Dale Schmidt is the owner of Community Health Solutions, which employs primary care providers who procure Medical Professional liability insurance through providers of such coverage in the open market today. This physician group, which is wholly-owned will play a key role in advising the applicants on the needs of the market from the user perspective. [Analyst Note: This physician group may be the motivation for pursuing this transaction.] Mr. Schmidt and Dr. Freeman have extensive experience developing and managing provider networks for Managed Care products and Medicaid programs. The Applicant has since amended the business plan to remove medical malpractice as a line of business.
- Cyber Liability: Cyber risk insurance is an emerging market with significantly under-served segments (small to mid-sized companies) handling sensitive data with exposure to material information security threats. The proposed applicants are well versed in the dynamic risk profile of companies exchanging PHI and PII, and the technical, physical requirements of safeguarding that data having endured countless regulatory audits spanning the twenty years since the passage of HIPAA and subsequent legislation. The applicants are a minority owner in, and strategic partners with Guardian Solutions, a provider of sophisticated data encryption technology who will provide "value-in-use" services associated with the product offering contemplated by SGIC. The applicants will work with consulting actuaries in this unique market to design and price products similar to those being offered today, but with lower coverage limits and in-use services tailored to the needs of the under-served segments of this growth market. The Applicant has since amended the business plan to remove cyber liability as a line of business.
- Critical Illness: While employed at Mutual of Omaha Lane Kent was responsible for the design and distribution of that company's first generation CI product in 1999/2000. In his role as President of Insurance Administrative Solutions (IAS) from 2013-2016, Lane was responsible for all facets of the underwriting, claims and administrative processing of a portfolio of CI, cancer and other dreaded disease insurance products. Dr. Barbara Freeman, who will serve as the Chief Medical Officer of SGIC has over 25 years of experience developing underwriting

and claims guidelines for mortality products of this nature, as well as evaluating claims and care plans for insureds with chronic and acute illnesses.

- Medicare Supplement: While employed at Mutual of Omaha Lane Kent was responsible for the product distribution strategy for that company's portfolio of fee-for-service Medicare Supplement insurance, building a book of business accounting for over \$100 million in annual sales from 1997-2001. At IAS (2013-2016) Lane was responsible for all facets of the administration of twelve direct writers of Medicare Supplements, roughly 120,000 insured lives and processing over 4 million claims annually. This experience included launching two new carriers into the market with a full-turnkey product design, pricing, filing and end-to-end administration solution.
- Accidental Medical Expense: Both Dale Schmidt and Lane Kent have extensive experience with AME and related products. Dale's Premier Administrative Solutions (PAS) was the administrator of two portfolios of AME products from 2010-2014. Lane is presently implementing a similar portfolio for a new market entrant seeking outsourced services, which will be provided by PAS. Further, Lane was responsible for the distribution of all supplemental health and accident products while at Mutual of Omaha from 1992-2001.

- b) 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.]

Applicant's Response: At some point, in the future, as the Company expands its products and markets it will begin to offer large SIRs (\$ [REDACTED]) to compete for business and to provide large insureds the opportunity to actively participate in their risk exposure [Analyst Note: This could be used as a way to get around the Self-Insurance Requirements set-forth in Chapter 655, Wis. Stat.] With the initial introduction of its liability programs, the Company plans on making deductibles available to insureds to provide a means of controlling costs. The Applicant has since amended the business plan to remove medical malpractice and cyber liability as a line of business.

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

Applicant's Response: Please find a copy of the Applicant's sample policy attached (Exhibit I). Section 655 sets up the Wisconsin Injured Patients and Families Compensation Fund. The Company, once a Certificate of Authority is issued, will comply as follows for health care providers subject to the law: (a) Have underwriting guidelines which provide that policies issued to health care providers subject to the law will provide limits of insurance of \$1M/\$3M only (or that amount required by the statute). The Applicant has since amended the business plan to remove medical malpractice and cyber liability as a line of business.

- d) Reinsurance Program: Please provide a narrative discussing the Applicant's proposed reinsurance program for business ceded, including: retentions, maximum risks, types of contracts, etc.

Applicant's Response: The applicants have sufficient capital to meet the RBC and surplus needs associated with the sales in the Pro forma projection. However, to optimize utilization of capital over the long term, [REDACTED]

[REDACTED] The specific terms with reinsurers will be subject to the underlying product pricing,

reinsurer services beyond providing surplus capacity (product expertise, manuals and guides for underwriting and claims, actuarial services, etc.). The Applicant has since amended the business plan to remove medical malpractice and cyber liability as a line of business.

8. Applicant's Financial Statements: Form A Item 12 requires Applicant's to submit the Applicant's annual financial statements for the preceding 5 fiscal years, including certified audited financial statements for the most recent fiscal year. In lieu of submitting audited financial statements for 2015, the Applicant submitted its 2015 Tax Return, 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.

Applicant's Response: Premier Servicing has not yet had Audited Financial Statements required by a regulating entity, due to past and current business activities, and therefore they were never generated.

- 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.

Applicant's Response: Please find the Premier Servicing Balance Sheet and Income Statement, as of 9/30/2016, compiled by a certified public accountant attached (Exhibit K)

- 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.

Applicant's Response: Premier Servicing was an inactive holding company and was used to accrue and save funds for S Corp liabilities, which would be taken as a draw at year's end. In 2015, a new controller was brought on and the process was changed at that time, resulting in a drop in Ordinary Business Income.

9. Pro Forma Financial Statements ("SGIC"): Our review of the 5-year proforma financial statements submitted with the application identified a number of issues.

Applicant's Response: Please find revised Balance Sheet in proforma (Exhibit L). The Net Loss Ratio used in the analysis is [REDACTED]%. This projection is based on results as found in A.M. Best's [REDACTED]. See tab labeled "IEE 2015 P6 099200" in the pro-forma spreadsheet. The Applicant has since amended the business plan to remove medical malpractice and cyber liability as a line of business. See item 12 above.

Capital: The Form A states that SGIC will have [REDACTED] in capital at the closing of the acquisition. How will capital grow from [REDACTED] at Closing to [REDACTED] (as projected for year-end 2017)?

Applicant's Response: The financial spreadsheet has been amended to reflect [REDACTED] paid in capital. SGIC has and will deploy the additional [REDACTED] as sales materialize and will inject more capital as necessary. The Applicant has since amended the business plan to remove medical malpractice and cyber liability as a line of business. See item 12 above.

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

Applicant's Response: A Third Party feasibility studies was performed in the preparing of the business plans. Although the projections may be optimistic the company has sufficient capital to allow it to adjust in the event that sales are not as high as anticipated.

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 [REDACTED] 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?

Applicant's Response: Yes, the sellers intend to submit an extraordinary dividend request prior to closing.

b) Please explain why the Applicant believes that an initial capitalization of [REDACTED] will be sufficient, in light of the lines of business the Applicant intends to write (e.g. medical malpractice, cyber liability, etc.)?

Applicant's Response: The Stock Purchase agreement calls for the buyer to effectuate the closing with a transfer between [REDACTED] and [REDACTED], with [REDACTED] being the target. This number is deemed by the applicant to be a sufficient level of capital for a shell with effectively no inforce premium. The amount of capital in the company at closing was not intended to reflect the capital needs of the company as a going concern with new premiums flowing in. The Pro forma financials indicate a level of capital [REDACTED] (well in excess of the RBC test to support projected sales over the first five years of operation. The Applicant has since amended the business plan to remove medical malpractice and cyber liability as a line of business. See item 12 above. It will have sufficient capital to meet RBC and compulsory surplus requirements.

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)?

Applicant's Response: The applicants, with significant combined experience in insurance finance and operations, fully understand the capital required to support a growing insurance business and is prepared to satisfy all questions and concerns the OCI wishes to address. To the extent formal guarantees, in the form of surplus notes or other mechanism, are required to demonstrate the sufficiency and wherewithal of the applicants in this regard, we are open to discussions. Further, the applicants understand capital sufficiency is a dynamic process requiring active and ongoing management, and will submit to all industry best practices (regular RBC test analysis, expert 3rd party opinions, sensitivity tests, audits, etc.) to ensure SGIC remains vibrant and viable.

The Applicant, per letter dated January 9, 2017 (including Exhibits), responded to the issues identified in OCI's December 1, 2016 application follow-up letter with a revised business plan and feasibility study.

Conclusion

It is recommended that the proposed acquisition of control of Southern Guaranty Insurance Company by Premier Servicing, LLC be approved on the basis that there are no statutory grounds for denial pursuant to s. 611.72 (3), Wis. Stat.