

# HUSCH BLACKWELL

Jed A. Roher  
Partner

33 E. Main Street, Suite 300  
Madison, WI 53703  
Direct: 608.234.6013  
Fax: 608.258.7138  
jed.roher@huschblackwell.com

September 10, 2020

## VIA E-MAIL

Mr. Steven J. Junior  
Insurance Program Manager  
Division of Financial Regulation  
Wisconsin Office of the Commissioner of Insurance  
125 South Webster Street  
P.O. Box 7873  
Madison, WI 53707-7873  
E-Mail: Steve.Junior@wisconsin.gov

Re: Request for Information - Proposed Acquisition of Control of Southern Life and Health Insurance Company by Universal Fidelity Life Insurance Company (Case No. 20-C43728)

Dear Mr. Junior:

This letter responds to your request, dated September 1, 2020, for additional information in connection with the review by the Wisconsin Office of the Commissioner of Insurance of the proposed acquisition of control of Southern Life and Health Insurance Company (“Southern”) by Universal Fidelity Life Insurance Company (“UFLIC”). For ease of reference, in responding to your request I will set out each of your numbered information requests below, followed by the applicable response or explanation.

- 1. As of December 31, 2019, Southern Life and Health Insurance Company, under NAIC risk-based capital standards, had an authorized control level risk-based capital of \$3,672,461. The target immediate post-acquisition capital and surplus is \$3,250,000. In the Form A, it is stated that, if closed at December 31, 2019 under the proposed transaction terms, Southern Life and Health Insurance Company's RBC ratio would have been 652%. Please demonstrate how authorized control level risk-based capital would decrease from \$3,672,461 to \$510,000 under the proposed transaction terms.*

The decrease in authorized control level risk-based capital is due to the removal from Southern's balance sheet of the stock of Southern's affiliated companies in connection with the proposed transaction. Attached hereto as Attachment #1 is (i) Southern's authorized control level calculation as of 12/31/19, and (ii) a projection of Southern's authorized control level calculation had the proposed transaction closed on 12/31/19.

Mr. Steven J. Junior  
September 10, 2020  
Page 2

As you will be able to see in the attachments, on Line 20 of Southern's authorized control level calculation, the calculation includes risk factors for affiliated common stock totaling \$7,011,778 before applying the covariance calculation. This is 95% of Southern's authorized control level before covariance. All of the stock of Southern's affiliated companies will be distributed prior to the closing of the proposed acquisition and will, therefore, not be included in the projected calculation.

2. *What would Southern Life and Health Insurance Company's RBC ratio have been if closed at December 31, 2019 under the proposed transaction terms, if the company's assets were invested according to the plan to achieve your targeted investment return instead of almost all cash?*

UFLIC had already included hypothetical investments in the projected RBC previously presented as Exhibit E to the Form A filing related to the proposed acquisition. The projected RBC calculation only assumed \$750,000 cash with the balance in investments consistent with achieving the targeted investment return.

3. *Given Universal Fidelity Life Insurance Company's third-party administrative capabilities, will there be any need or provision to retain any of the existing staff serving Southern Life and Health Insurance Company either directly or on a consulting basis?*

Following the closing of the proposed acquisition, for transition and integration purposes UFLIC will employ two of Southern's three existing employees, for a period of five months; following this 5-month employment term UFLIC will retain one of Southern's three existing employees as a consultant through November, 2021. In addition, Southern's third existing employee will be available to UFLIC as an independent contractor for a short time post-closing.

4. *In what calendar year do your internal projections indicate that Southern Life and Health Insurance Company would reach the capital and surplus deemed necessary for its reactivation under your business plan?*

UFLIC's response to this question is being sent under separate cover. UFLIC requests confidential treatment with respect to its response to this question.

5. *Is it anticipated that, following the acquisition of control, the officers and directors of Southern Life and Health Insurance Company would be identical to the officers and directors of Universal Fidelity Life Insurance Company?*

It is anticipated that, following the acquisition of control, the officers and directors of Southern will be comprised of the same individuals who are officers and directors of

Mr. Steven J. Junior  
September 10, 2020  
Page 3

UFLIC, although with slightly different roles. As discussed in Items 3 and 5 of the Form A filing related to the proposed acquisition, the directors and officers of UFLIC, and the anticipated directors and officers of Southern following the acquisition of control, are as follows:

UFLIC

Southern

*Directors:*

*Directors:*

C. Brent Haggard  
Steven E. Taylor  
Lori A. Hay  
Brian L. Baxter

C. Brent Haggard  
Steven E. Taylor  
Lori A. Hay  
Brian L. Baxter  
Kyle D. Conrad

*Officers and Executive Management:*

*Officers:*

C. Brent Haggard  
Penney Stewart  
Lori A. Hay  
Steven E. Taylor  
Jodi Cooper  
Kyle D. Conrad

C. Brent Haggard  
Lori A. Hay  
Kyle D. Conrad

6. *Please provide a copy of the Material Non-Disclosure, Confidentiality and Proprietary Rights Agreement dated as of October 10, 2019, and amended as of May 29, 2020, between Universal Fidelity Life Insurance Company and Southern Life and Health Insurance Company.*

The Material Non-Disclosure, Confidentiality and Proprietary Rights Agreement dated as of October 10, 2019, and amended as of May 29, 2020 between UFLIC and Southern is included in this response as Attachment #6, but is being sent under separate cover. UFLIC requests confidential treatment with respect to this agreement.

Mr. Steven J. Junior  
September 10, 2020  
Page 4

7. *As the ultimate controlling person of the holding company system, please provide your personal balance sheet as of either December 31, 2019 or June 30, 2020, whichever would be easiest to prepare, with your personal attestation as to its accuracy and integrity.*

Mr. Haggard's personal balance sheet as of December 31, 2019 is included in this response as Attachment #7, but is being sent under separate cover. Since Mr. Haggard's personal balance sheet is not a public record, UFLIC requests confidential treatment with respect to Mr. Haggard's personal balance sheet.

8. *For each of the following entities in the holding company system of Universal Fidelity Life Insurance Company:*
- a. *CBH Management Services, Inc.*
  - b. *Seneca International Ltd.*
  - c. *Universal Fidelity Services Company, LLC*
  - d. *Universal Fidelity Administrators Company*
  - e. *Universal Capital Company, LLC*
  - f. *Legend Insurance Agency LLC*
  - g. *GR Phronesis Inc.*

*Please provide the following information:*

- a. *Financial statements as of the most recent fiscal year end (unaudited is acceptable, if that's the best available)*
- b. *Description of current purpose and activities*
- c. *Capitalization structure, including the number of shares authorized, and issued and outstanding for each class of common and preferred stock as well as any debt issued, if any.*

The financial statements for the above entities are included in this response as Attachment #8a (for CBH Management Services, Inc., Seneca International Ltd., Universal Fidelity Services Company, LLC, Legend Insurance Agency, and GR Phronesis Inc.), Attachment #8d (for Universal Fidelity Administrators Company), and Attachment #8e (for Universal Capital Company), but are being sent under separate cover. Since these financial statements are not public records, UFLIC requests confidential treatment with respect to these financial statements.

A description of the current purpose and activities of each of the above entities is as follows:

- a. *CBH Management Services, Inc.: general partner of Seneca International Ltd.*

# HUSCH BLACKWELL

Mr. Steven J. Junior  
September 10, 2020  
Page 5

- b. Seneca International Ltd.: investment company.
- c. Universal Fidelity Services Company, LLC: no active operations; receives fee income related to pharmacy benefit management contracts.
- d. Universal Fidelity Administrators Company: holds North Carolina third party administrators license; contracts with vendors used in ERISA third party administrator activities.
- e. Universal Capital Company, LLC: formed to make investments in technology or unrelated businesses.
- f. Legend Insurance Agency LLC: widely licensed insurance agency; managing general underwriter for stop loss, blanket student accident, and Medicare supplement insurance.
- g. GR Phronesis Inc.: inactive.

A description of the capitalization structure of each of the above entities is as follows:

- a. CBH Management Services, Inc.: Stock Corporation. 10,000 shares of \$1.00 par value common stock authorized; 3,000 shares outstanding, all of which are subject to a Voting Trust Agreement with respect to which Mr. Haggard is the trustee. Of those 3,000 outstanding shares, 1,000 are owned by Mr. Haggard, and 2,000 are owned by his mother, Mary Jo Haggard.
- b. Seneca International Ltd.: Limited Partnership. CBH Management Services Inc. is the General Partner of Seneca International Ltd., and holds approximately 1.9% of the equity interests in Seneca International Ltd; Mr. Haggard is a limited partner in Seneca International Ltd., and holds approximately 97.9% of the equity interests in Seneca International Ltd.; the remaining approximately 0.2% of the equity interests in Seneca International Ltd. Are held by two other limited partners.
- c. Universal Fidelity Services Company, LLC: Limited Liability Company. Wholly owned by Seneca International Ltd.
- d. Universal Fidelity Administrators Company: Stock Corporation. 30,000 shares of \$1.00 par value common stock authorized; 10,000 shares outstanding, all of which are owned by UFLIC.

Mr. Steven J. Junior  
September 10, 2020  
Page 6

- e. Universal Capital Company, LLC: Series Limited Liability Company. Wholly owned by UFLIC.
  - f. Legend Insurance Agency LLC: Limited Liability Company. Wholly owned by Mr. Haggard.
  - g. GR Phronesis Inc.: Stock Corporation. 100,000 shares of no par value common stock authorized; 10,000 shares outstanding, all of which are owned by Mr. Haggard.
9. *Which entities within the holding company system of which Universal Fidelity Life Insurance Company function as the direct employers of those who provide services to Unity [sic]? Please describe the services that each of these corporations currently provide.*

Within the holding company system of which UFLIC is a member, only UFLIC functions as a direct employer of those who provide services to the holding company system. As a result, UFLIC provides all administrative functions for all members of the holding company system.

10. *What are the number and location of employees that currently provide services to Universal Fidelity Life Insurance Company and its policyholders?*

Just under 100 people currently provide services to UFLIC and its policyholders, including approximately 70 employees in UFLIC's operational offices in Duncan, Oklahoma; approximately 20 employees in UFLIC's executive offices in Oklahoma City, Oklahoma; and 9 employees who are permanent remote employees.

11. *Is it your expectation that Universal Fidelity Life Insurance Company will meet the qualifications for complete forgiveness of its \$820,500 Paycheck Protection Program loan under the Coronavirus Aid, Relief, and Economic Security Act?*

Yes, under currently published guidelines.

12. *There is sometimes legitimate need to disapprove affiliated agreements on an interim basis and it is not reasonable that the regulator should have to risk immediate cessation of all essential services as a result. Accordingly, Section 6.02 (C) of the Administration and Services Agreement should be revised to allow for 90 days continuity of services under the terms of the latest executed agreement between the parties. In addition, Section 8.03 of the Administration and Services Agreement should be revised so that arbitration does not apply to any disputes arising in the course of a liquidation or rehabilitation proceeding pursuant to Chapter 645 of the Wisconsin Statutes. Please*

# HUSCH BLACKWELL

Mr. Steven J. Junior  
September 10, 2020  
Page 7

*provide a revised form of Administration and Services Agreement to address these concerns.*

Attached hereto as Attachment #12, but excluding Exhibit A to the Administration and Services Agreement.

*13. Attached is a draft stipulation and order that includes the terms and conditions that we currently believe necessary for approval of the proposed acquisition.*

UFLIC appreciates the thought that you have put into the draft stipulation and order, and has just a few thoughts and comments it would like to offer to the proposed draft. I will send a proposed revised draft of the proposed stipulation and order under separate cover.

Should you have any questions regarding the above information or attached materials, please don't hesitate to call or email me or Mr. Haggard for further discussion.

Respectfully,



Jed A. Roher

cc: Ms. Amy Malm, Director, Bureau of Financial Analysis and Examiners, Wisconsin Office of the Commissioner of Insurance

Mr. Brent Haggard, President and Chief Executive Officer, Universal Fidelity Life Insurance Company