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027702-0102

August 4, 2016

ADVANCED VIA E-MAIL

Ms. Kristin L. Forsberg
Insurance Financial Examiner
Bureau of Financial Analysis and Examinations
State of Wisconsin
Office of the Commissioner of Insurance
125 South Webster Street
P.O. Box 7873
Madison, WI 53707-7873

Re: Form A – Acquisition of Control of United National Specialty
Insurance Company by State National Companies, Inc. and
State National Insurance Company, Inc.

Dear Ms. Forsberg:

Reference is made to your letter regarding the above-captioned matter, dated July 7, 2016, and our initial supplemental response dated July 22, 2016. Please find below a final supplemental response to the remaining requests made in your letter (in bold type) and a response to each request from State National Companies, Inc. (“SNC”) and State National Insurance Company, Inc. (“SNIC”).

Exhibit 13 attached hereto contains confidential information that could put SNC and SNIC at a competitive disadvantage if it were to become known by the public. SNC and SNIC take reasonable efforts to keep this information confidential. Accordingly, the information constitutes a “trade secret” under Section 134.90(1)(c), because it “derives independent economic value, actual or potential, from not being generally known to, and not being readily ascertainable by proper means by, other persons who can obtain economic value from its disclosure or use” and because the information “is the subject of efforts to maintain its secrecy that are reasonable under the circumstances.” As you are aware, trade secrets are exempt from the public records law under Section 19.36(5), Wis. Stat. and Wis. Admin. Code § Ins 6.13(2). Additionally, OCI may withhold this information from disclosure under Section 601.465(1m)(a), Wis. Stat. and Wis. Admin. Code § Ins 40.05. Accordingly, we request that you do not release Exhibit 13 to the public.

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13. Pro Forma Financial Statements:

a) **Direct Business:** The Pro Formas show that 100% of the direct business written will be in the Homeowners multi-peril (“HOMP”) line, which UNSIC does not currently write (UNSIIC currently writes a variety of P&C lines, but not HOMP). This appears to be inconsistent with other information provided in the Form A (which indicates that UNSIC’s post-acquisition direct business will consist entirely of renewals that UNSIC is obligated to write). Please explain this discrepancy: If UNSIC does not currently write HOMP – why will its business post-acquisition be in this line?

The previously submitted Pro Formas reflect that UNSIC will be writing HOMP in 2017-2019. The new Pro Formas, attached as Exhibit 13, reflect the premium that State National expects to begin writing in this line of business post acquisition (related to the Alliance Agreement with Nephila). The previous Pro Formas did not reflect the run-off of a small amount of Diamond State business. The premium projection information provided by Diamond State indicates minimal, if any, renewal premium is expected to be written in 2017 on existing UNSIC lines of business. Therefore, we have not included renewal premiums for UNSIC in the attached Pro Formas. However, we have updated the Pro Formas to reflect the run-off of existing UNSIC lines of business in 2017. That business will be 100% ceded to Diamond State.

b) **Assumed Business:** The Pro Formas show that all assumed business will be in the Private Passenger Auto Physical Damage and Credit lines. Please discuss the source and nature of this business (i.e. – will this business consist entirely of business that will be transitioned to UNSIC pursuant to the Alliance Agreement between State National and Nephila, and specifically, what type of business will this be?).

The assumed business in the Pro Formas consists of business assumed from State National affiliated companies through a Reinsurance Pooling Agreement that will go into effect post acquisition. The pooled group, which includes SNIC, NSIC and USIC, writes and insures automobile lines of business marketed to lending institutions, primarily collateral protection insurance (“CPI”) policies. The assumed business in the Pro Formas is based on UNSIC’s planned participation in the Reinsurance Pooling Agreement.

c) **Ceded Business:** The Pro Formas indicate that 100% of direct business written for 2017 – 2019 will be ceded. Please clarify – is this due to the 100% Quota Share Reinsurance Agreement with Diamond State, which will become effective post-closing?

It is correct that 100% of the direct business will be ceded for 2017-2019. This is a result of the 100% Quota Share Reinsurance Agreement with Diamond State and reinsurance agreements on the HOMP business that State National plans to write in 2017-2019.

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d) **Territory:** UNSIC currently writes almost entirely in PA, IL and Wisconsin. The Pro Formas indicate that UNSIC will write exclusively in CA, NJ and NY for 2017 – 2019. Please explain why UNSIC plans to write only in CA, NJ and NY for 2017 – 2019 (and not in PA, IL and WI where it is currently writing business).

These Pro Formas reflect the premium that State National expects to begin writing in the HOMP line of business post acquisition, which includes premium in CA, NJ and NY. The premium projection information provided by Diamond State indicates minimal, if any, renewal premium is expected to be written in 2017 on existing UNSIC lines of business. Therefore, we have not included renewal premiums for UNSIC in these Pro Formas. However, we have included run-off of existing UNSIC policies for PA, IL and WI.

e) **Pro Forma – Assumptions:** The assumptions provided with the Pro Formas state: “[T]he nationwide pro forma presents financial results subsequent to the Reinsurance Pooling Agreement between State National Insurance Company and its affiliates, National Specialty Insurance Company and United Specialty Insurance Company.”

The Form A does not indicate that UNSIC will participate in a reinsurance pooling agreement with its State National affiliates post-closing. Please explain why the assumptions state that the nationwide pro formas reflect a reinsurance pooling agreement that is not discussed anywhere else in the Form A.

The reinsurance pooling agreement has been addressed in Item 10(A) of the July 22, 2016 response to OCI’s July 7, 2016 request letter, but please advise if any additional information is required to satisfy this particular request.

* * * * *

I trust that the responses provided above, and the enclosure provided with this letter, satisfy the related requests, but should you have any questions or require any additional information, please do not hesitate to contact me.

Very truly yours,



Kevin G. Fitzgerald

Enclosures

cc: David M. Cleff, Esq. (w/o enclosures)
Elise M. Clarke, Esq. (w/o enclosures)