



State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

Scott Walker, Governor
Theodore K. Nickel, Commissioner

Wisconsin.gov

125 South Webster Street • P.O. Box 7873
Madison, Wisconsin 53707-7873
Phone: (608) 266-3585 • Fax: (608) 266-9935
E-Mail: ociinformation@wisconsin.gov
Web Address: oci.wi.gov

DATE: September 21, 2016 - PUBLIC (Redacted)
TO: Rebecca Easland
Steve Junior
FROM: Kristin Forsberg
SUBJECT: Form A - Acquisition of Control of a Domestic Insurer:
United National Specialty Insurance Company [Case No. 16-C41318]

Form A filing contacts:

Table with 2 columns: Primary Contact and Secondary Contact. Includes names, addresses, and phone numbers for Kevin G. Fitzgerald and David M. Cleff.

Form A Exhibits (filed with the Wisconsin OCI on June 9, 2016:

Table listing exhibits from 1 to 12-E, including Share Purchase Agreement, Organizational Chart, Biographical Affidavits, and various financial statements.

Background

The Acquirer(s)/Applicant(s):

State National Companies, Inc. ("SNC"): Located in Bedford, Texas, SNC is a Delaware-domiciled insurance holding company that is publicly traded on the NASDAQ stock exchange (Ticker Symbol: "SNC"). SNC was incorporated on January 25, 2002.

SNC serves as the ultimate controlling party in the State National insurance holding company group, which includes State National Insurance Company ("SNIC") and its wholly-owned subsidiaries: National Specialty Insurance Company ("NSIC") and United Specialty Insurance Company ("USIC"). SNIC and NSIC are admitted carriers licensed to write property and casualty business in approximately 50 states and the District of Columbia. USIC is an admitted carrier in Delaware, and is eligible to write surplus lines in approximately 50 states and the District of Columbia.

The group is a leading writer of specialty property and casualty insurance products in the United States. The group's operations are organized into two primary business segments:

- **Program Services:** The group offers access to specific lines of U.S. property and casualty insurance business to insurers and institutional risk investors ("capacity providers") through fronting arrangements, whereby the group underwrites the risk, and then cedes approximately 100% of the risk to the capacity providers in exchange for a ceding commission.
- **Lending Services:** The group provides collateral protection insurance ("CPI") to its credit union, bank and specialty finance clients. The CPI business is primarily written through an affiliated managing general agency (MGA).

State National Insurance Company ("SNIC"): Located in Bedford, Texas, SNIC is a Texas-domiciled P&C company, and an indirect, wholly-owned subsidiary of SNC. Since its inception in 1984, SNIC has specialized in underwriting collateral protection insurance for lending institutions.

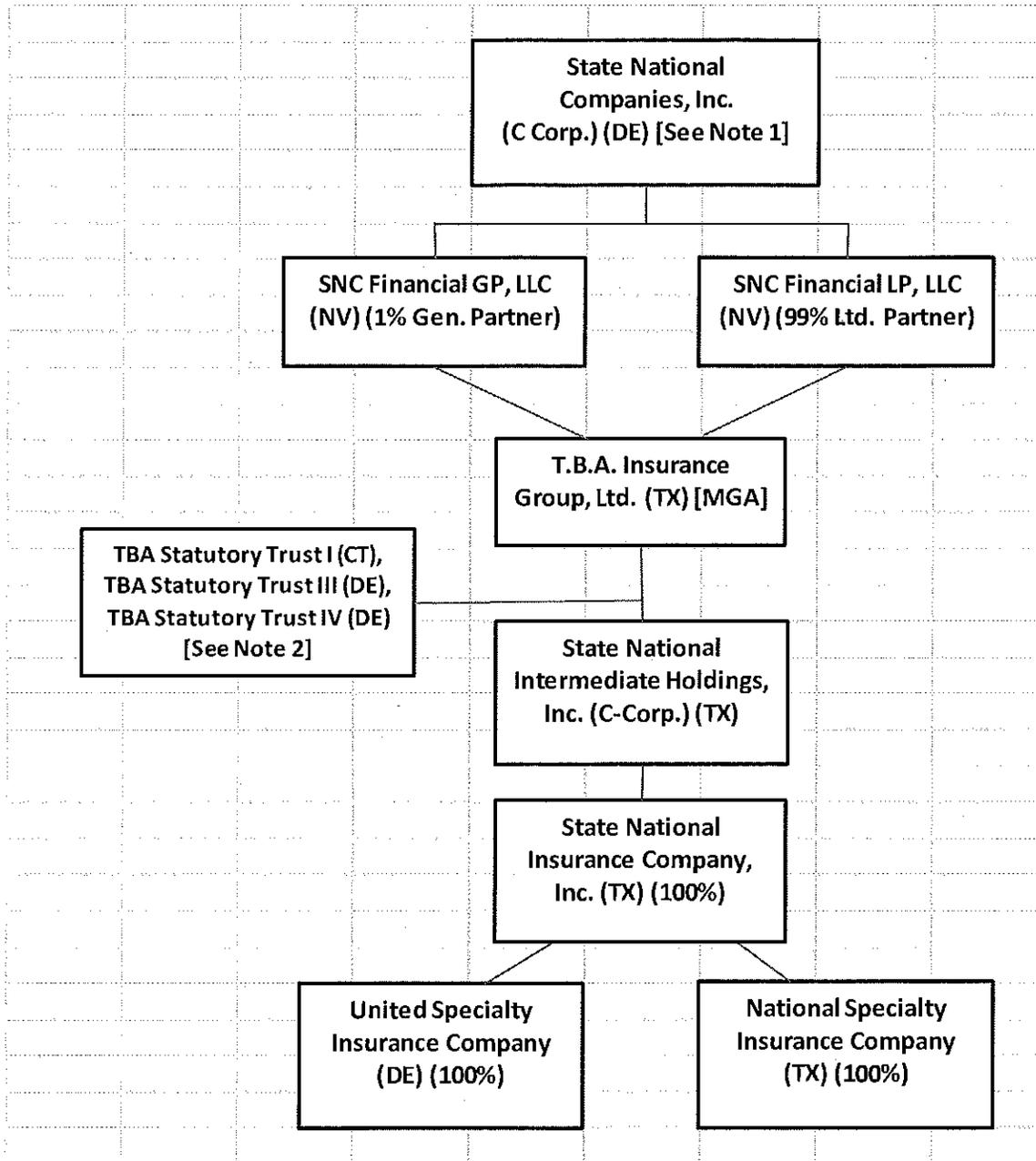
SNIC and its subsidiaries, NSIC and USIC, pool their underwriting results through a reinsurance pooling agreement, whereby NSIC and USIC cede 100% of their "net liability" to SNIC, and SNIC retrocedes 20% and 35% of the combined "net liability" back to NSIC and USIC, respectively.

Since its inception, SNIC has specialized in underwriting collateral protection insurance (CPI) for lending institutions on their auto loan portfolios. Effective July 2009, State National and CUNA Mutual formed a strategic alliance to provide tracked CPI business to credit unions previously written by CUNA Mutual. The business is written by SNIC and serviced by an affiliated MGA, and is reinsured through a quota share agreement with CUMIS Insurance Society, Inc. (whereby 50% of the business written prior to 7/1/14 is ceded, and 30% of the business written on or after 7/1/14 is ceded).

The CPI business is written through an affiliated managing general agency (MGA) in virtually all 50 states. Collateral protection policies cover a lender's collateral in the event that the borrower fails to procure insurance or the borrower's insurance coverage has lapsed. These coverages are classified as inland marine, auto physical damage, credit, fire, or commercial multi-peril on the company's statutory financial statements. Other than the CUNA Mutual business, the group retains 100% of its CPI business, in addition to guaranteed auto protection (GAP) insurance policies on auto loans. These books of business are referred to as "lender business".

State National also operates as a program writer, but retains little of this business for its own account. This business is written through non-affiliated MGAs in multiple territories and multiple lines of business. The majority of policies are issued with limits of \$1.0 million or less, with a maximum limit of \$50 million. Virtually all of this business is ceded to reinsurers, and is secured through letters of credit and/or security trust accounts. The associated credit risk is further lessened by provisions within the reinsurance contracts that substantially reduce dispute risk.

Holding Company System: Below is the organizational chart of the State National holding company system:



Ownership/Key Affiliates:

1. **Ownership:** As of March 31, 2016, 28.771% of the outstanding common stock of State National Companies, Inc. represents shares held by Terry Ledbetter individually, and by trusts and a private foundation for which Terry Ledbetter is the grantor. All other investors individually hold less than 10% of the outstanding common stock of State National Companies, Inc.
2. **SNC Financial GP, LLC and SNC Financial LP, LLC:** These are intermediate holding companies that have no current business activities other than their ownership of T.B.A. Insurance Group, Ltd.

3. **T.B.A. Insurance Group, Ltd (“TBA”)**: TBA is wholly-owned by SNC Financial GP, LLC and SNC Financial LP, LLC. TBA is licensed as a managing general agent for SNC’s insurance subsidiaries in connection with SNC’s Lender Services segment, and oversees the underwriting of the CPA business. In addition, under a separate management agreement, TBA provides business development, financial monitoring, and other oversight functions to SNC’s insurance subsidiaries.
4. **TBA Statutory Trusts – Subordinated Debentures**: SNC has three statutory business trusts (the Trusts) that were formed between 2002 and 2004, for the sole purpose of issuing \$44.5 million of trust preferred securities in private offering transactions. The Trusts used the proceeds from these offerings, together with the equity proceeds received upon their initial formation from TBA, to purchase variable-rate subordinated debentures issued by TBA. All voting securities of the Trusts are owned by TBA, and the debentures are the sole assets of the Trusts. The Trusts meet the obligations of the trust preferred securities with the interest and principal paid on the debentures. SNC does not have a variable interest in the Trusts and therefore does not consolidate the Trusts.

Affiliated Agreements – Post-Closing: Below is a list of affiliated agreements in which UNSIC is expected to participate with the State National companies post-closing:

- **Reinsurance Pooling Agreement**: Effective December 31, 2002, pursuant to which the State National insurance companies pool the results of underwriting operations in accordance with specified quota share percentages.
- **Administrative Services Agreement**: Effective December 29, 1999, pursuant to which TBA provides administrative services to the State National insurers.
- **Agency Agreement**: Effective January 1, 2003, pursuant to which TBA acts as a producing agent on behalf of the State National insurers.
- **Tax Sharing Agreement**: Effective June 26, 2014, for the filing of consolidated federal tax returns by the State National affiliates.

The Wisconsin Domestic Insurer to be Acquired:

United National Specialty Insurance Company (“UNSIC”):

UNSIC is a specialty property and casualty insurer that was incorporated and commenced business in 1961. UNSIC is a wholly-owned subsidiary of Diamond State Insurance Company (“Diamond State”). The ultimate controlling person is Fox Paine International GP, Ltd., a Cayman Islands exempt company. UNSIC is licensed in 49 states, plus the District of Columbia, and is eligible to write surplus lines business in Pennsylvania.

Affiliated Agreements: Prior to closing, UNSIC and Diamond State intend to enter into a quota share reinsurance agreement whereby Diamond State will reinsure 100% of all liabilities of UNSIC relating to policies issued by UNSIC prior to closing, including any renewals of the pre-closing policies which UNSIC is obligated by contract or applicable law to issue after the closing of the acquisition.

UNSIC is currently party to various affiliated agreements, as discussed below:

- **Reinsurance Agreements**: UNSIC and certain affiliates are parties to a series of reinsurance, pooling and trust agreements, as listed below:
 - Reinsurance Pooling Agreement dated January 1, 2009, by and among United National Insurance Company (“UNIC”), Diamond State Insurance Company (“DSIC”), UNSIC, and other affiliates.

- Trust Agreement dated December 31, 2010, by and among UNIC, UNSIC, and Brown Brothers Harriman Trust Company, N.A. ("BBH"), as trustee.
- Net Retained Insurance Liability Quota Share Reinsurance Contract by and between UNSIC and Global Indemnity Reinsurance Company, Ltd. ("GIRE") effective January 1, 2007.
- Reinsurance Trust Agreement by and between UNSIC, GIRE, and BBH, as trustee, dated January 1, 2004.
- Amended and Restated Cost Allocation Agreement: Dated January 25, 2005 by and among Global Indemnity Group, Inc. ("GIGI"), and various affiliates (including UNSIC).
- Amended and Restated Tax Sharing Agreement: Dated January 25, 2005 by and among Global Indemnity Group, Inc. ("GIGI"), and various affiliates (including UNSIC).

Comment – June 6, 2016 Form D Filing: UNSIC filed a Form D requesting OCI's non-disapproval of the proposed Quota Share Reinsurance Agreement between UNSIC and Diamond State, and the termination or amendment of the other listed agreements, pursuant to the proposed transaction, on June 6, 2016.

The Proposed Transaction:

The Applicant intends to acquire control of UNSIC by purchasing 100% of the issued and outstanding stock of UNSIC, in accordance with the terms and conditions of the Share Purchase Agreement dated May 12, 2016 (the "Agreement") by and between Diamond State Insurance Company and State National Insurance Company, Inc. The proposed transaction is subject to the following conditions:

- Quota Share Reinsurance Agreement: Prior to the closing, UNSIC and Diamond State will enter into a quota share reinsurance agreement whereby Diamond State will (i) 100% reinsure, at its cost, all of the liabilities of UNSIC relating to policies issued by UNSIC prior to the closing, including any renewals of the pre-closing policies which UNSIC is obligated by contract or applicable law to issue after the closing of the acquisition, and (ii) administer, in all respects and at its cost, the pre-closing and post-closing policies.
- Transfer of Assets: Prior to the closing, and subject to receipt of regulatory approval, Diamond State will cause UNSIC to transfer assets, by dividend or distribution, to Diamond State such that UNSIC has approximately \$10 million of capital at the time of the closing.

As consideration for the common stock acquired, State National will pay to Diamond State, in cash, \$7,350,000 plus the Statutory Capital of UNSIC prior to the Closing.

It is anticipated that the Closing will occur on the 3rd business day following the day on which the last of the closing conditions are satisfied or waived, or on such other date as State National and Diamond State may have mutually agreed in writing.

The proposed transaction is subject to all required regulatory approvals, including but not limited to approval of this Form A filing by the Wisconsin Office of the Commissioner of Insurance ("OCI").

Redomestication to Texas: Diamond State, at the request of the Applicants, intends to cause UNSIC to redomesticate from Wisconsin to Texas immediately after the Closing, and has filed the appropriate paperwork with the Commissioner and the Texas Dept. of Insurance to facilitate such redomestication.

Item 1: Method of Control

The Applicant intends to acquire control of UNSIC in accordance with the terms and conditions of the Share Purchase Agreement ("Agreement") dated May 12, 2016, by and amongst Diamond State Insurance Company ("Seller") and State National Insurance Company, Inc. ("Purchaser"). Material terms of the Agreement (**Exhibit 1**) are summarized below:

Article 1: Purchase and Sale of the Shares

- **1.01 (Shares):** Purchaser shall purchase all of the right, title and interests in the Shares, free and clear of all Encumbrances (other than restrictions on transfer imposed by federal and state insurance and securities laws).
- **1.02 (Purchase Price):** The aggregate consideration to be paid by Purchaser to Seller for the Shares shall be (a) seven million three hundred fifty thousand dollars (\$7,350,000) plus (b) the Statutory Capital as of immediately prior to the Closing, determined in accordance with Section 1.03 ("Final Statutory Capital").
- **1.04 (Fair Consideration):** Each of the parties acknowledges and agrees that the consideration provided for in this Article represents fair consideration and reasonable equivalent value for the sale and transfer of the Shares and the transactions, covenants and agreements set forth in this Agreement, which consideration was agreed upon as the result of arms-length good faith negotiations between the parties and their respective representatives.

Article 4: Representations and Warranties of Seller

- **4.23 (Certain Transactions):** Except as set forth in Section 4.23 of the Disclosure Schedules, there are no agreements between the Company and any Affiliate that will continue after the Closing Date.

Article 10: Other Agreements

- **10.02 (Reinsurance):** On or before the Closing, Seller and the Company will enter into a quota share reinsurance arrangement (the "Quota Share Reinsurance Arrangement") substantially in the form set-forth in Exhibit C, whereby Seller will 100% reinsure, at its cost, all of the liabilities from Pre-Closing Policies and Post-Closing Policies of the Company related to the Business.
- **10.03 (Dividend):** On or before the Closing, and subject to approval by the Office or any other applicable Governmental Entity, Seller will cause the Company to transfer assets, by dividend or distribution, to Seller in amounts sufficient to reduce the remaining Statutory Capital to the amount set forth in Schedule 10.03(a); provided that if the Office or any other applicable Governmental Entity does not approve a reduction of the remaining Statutory Capital to the amount set-forth in Schedule 10.03(a), such reduction shall be to the maximum amount as has been approved by the Office or any other applicable Governmental Entity. Following the payment of such transfer, the Company's assets will consist solely of the types of assets set forth on Schedule 10.03(b).

Item 2: Identity and Background of the Applicants

The businesses addresses of the Applicants are:

State National Companies, Inc. 1900 L. Don Dodson Drive Bedford, TX 76021
State National Insurance Company, Inc. 1900 L. Don Dodson Drive Bedford, TX 76021

A pre-transaction organizational chart was included as Exhibit 2(c) (see also organizational chart on page 3 of this memo).

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

Officers and Directors: The names of the current directors and executive officers of both Applicants (SNC and SNIC) are included below:

<i>SNC Directors</i>	<i>SNC Officers</i>
Terry Ledbetter (Chairman)	Terry Ledbetter (Chairman and CEO)
Gene Becker	Matthew Freeman (President)
Marsha Cameron	David Hale (EVP, CFO/COO)
David King	David Cleff (EVP, General Counsel & Secretary)
Fred Reichelt	John Pearson (EVP)
	Lonnie Ledbetter III (EVP)
	Bradford Luke Ledbetter (EVP)
<i>SNIC Directors</i>	<i>SNIC Officers</i>
Terry Ledbetter (Chairman)	Terry Ledbetter (Chairman and CEO)
David Hale	Matthew Freeman (President)
Lonnie Ledbetter III (EVP)	Lonnie Ledbetter III (Secretary)
Mary Billingsley	David Hale (Treasurer)
Lonnie Ledbetter	David Cleff (Assistant Secretary)
Bradford Luke Ledbetter	
Fred Reichelt	

Biographical Affidavits were reviewed for each of the officers and directors listed in Item 3. No exceptional responses requiring further comment were noted.

Ownership: As of March 31, 2016, 28.771% of SNC's voting stock is held by Terry Ledbetter individually and through trusts and a private foundation for which Terry Ledbetter is the grantor.

Item 4: Nature, Source and Amount of Consideration

State National intends to purchase UNSIC for the Purchase Price of \$7,350,000 plus the Statutory Capital of UNSIC prior to the Closing. The Purchase Price will be paid entirely in cash, derived from State National's unassigned surplus. No part of the purchase price will be financed through third parties.

The Purchase Price was the result of arms' length negotiations between the parties. The Applicants were represented by independent legal advisors, and Diamond State was represented by independent financial and legal advisors.

Comment: OCI requested a copy of any opinion letters issued by Diamond State's independent financial or legal advisors as to the fairness of the purchase price. The Applicant responded: "Diamond State did not receive an opinion letter from its independent financial or legal advisors regarding the fairness of the purchase price."

Item 5: Acquiring Party's Future Plans for Insurer

The Applicant intends to cause the directors and officers of UNSIC to be replaced with the following persons:

UNSIC Directors (proposed)	UNSIC Officers (proposed)
Terry Ledbetter (Chairman)	Terry Ledbetter (Chairman and CEO)
Gene Becker	Matthew Freeman (President)
Marsha Cameron	Lonnie Ledbetter III (Secretary)
David King	David Hale (Treasurer)
Fred Reichelt	David Cleff (Asst. Secretary)

Redomestication to Texas: Diamond State, at the request of the Applicants, intends to cause UNSIC to redomesticate from Wisconsin to Texas immediately after the Closing, and has filed the appropriate paperwork with the Commissioner and the Texas Dept. of Insurance to facilitate such redomestication.

Plans/Proposals: Except as described in this Form A, the Applicants have no current plans or proposals to cause UNSIC to declare an extraordinary dividend, to liquidate UNSIC, to sell any of UNSIC's assets, to merge UNSIC with any person or persons, or to make any other material change in UNSIC's business operations, corporate structure, or management.

Item 6: Voting Securities to be Acquired

As a result of the Acquisition, State National will acquire all of the 42,000 issued and outstanding shares of common stock of UNSIC.

Item 7: Ownership of Voting Securities

Other than as set forth in the Agreement, neither the Applicants nor any of their affiliates, or any of the persons listed in Item 3, has a beneficial interest in, or the right to acquire a beneficial interest in, the voting securities of UNSIC.

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

Except for the Agreement, and the Alliance Agreement (discussed below), there are no contracts, arrangements or understandings directly or indirectly related to any voting securities of UNSIC to which the Applicants, their affiliates, or any person listed in Item 3 is a party.

Alliance Agreement with Nephila Capital, Ltd. (Nephila): State National is party to an Alliance Agreement (the "Alliance Agreement") by and among State National and its affiliates and subsidiaries, Nephila Capital, Ltd., acting on the behalf of the entities it manages ("Nephila") and Nephila Holdings, Ltd. ("Holdings") dated November 15, 2015, as amended, whereby Holdings has an option to acquire ownership of UNSIC from State National and, in certain circumstances, State National has an option to sell a portion of its ownership of UNSIC to Holdings. Material terms of the Alliance Agreement were included in Item 8 of the Form A, and are summarized below:

- State National and Nephila agree to transition some of the admitted insurance business written by State National and its affiliates and subsidiaries which is reinsured by Nephila to UNSIC after the closing of the Acquisition (the "**Nephila Transition**").
- For three years after the later of (i) January 1, 2020 and (ii) the date which is three years after the date on which the Nephila Transition begins, Holdings has the option, subject to regulatory approval, to purchase 90% of the ownership of UNSIC from State National (the "**Purchase Option**") for a purchase price equal to (a) \$7,350,000, plus (b) any fees paid by State National to unaffiliated parties related to the Acquisition, plus (c) 100% of the capital and surplus of UNSIC.
- If Holdings exercises the Purchase Option, Nephila agrees to pay State National management fees with respect to UNSIC after the date on which Holdings closes its purchase of 90% of the ownership of UNSIC under the Purchase Option (such date the "**Holdings Purchase Date**").

Item 9: Recent Purchases of Voting Shares

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

Item 10: Recent Recommendations to Purchase

Except for the Agreement, there have been no recommendations to others to acquire any shares of the voting securities of UNSIC during the 12 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 of UNSIC for tender.

Item 12: Financial Statements and Exhibits

Below is a summary of SNC's Consolidated financial results (2011 – 2016 YTD):

	(\$ in thousands)					
	2016 YTD (thru Q1)	2015	2014	2013	2012	2011
Assets	2,439,009	2,388,318	2,091,764	1,690,951	1,497,528	1,366,412
Liabilities	2,166,030	2,124,861	1,850,892	1,545,598	1,355,305	1,226,325
Shareholders' Equity	272,979	263,457	240,872	145,353	142,223	140,087
Total Revenues	50,100	198,948	154,527	128,503	122,123	124,749
Total Expenses	35,019	129,394	153,210	103,005	101,585	91,872
Income before Income Taxes	15,081	69,554	1,317	25,498	20,538	32,877
Net Cash from Operations	-1,600	60,996	23,176	33,856	27,059	30,296
Dividends Paid	11	6,165	16,683	15,295	14,176	17,958
Subordinated Debentures	43,751	44,500	44,500	52,000	52,000	52,000

Comments:

1. **Subordinated Debentures:** State National's debt is comprised of three 30-year, floating rate trust-preferred securities that were issued from 2002 – 2004. These securities are treated as mezzanine debt, and are redeemable at par on or after 5 years, with maturity dates beginning in December 2032.
2. **Sale of Stock:** On June 25, 2014, the sale of an aggregate of 31,050,000 shares of State National Companies, Inc. common stock was completed in a private placement. Subsequently, the resale of these shares was registered with the SEC. SNC's common stock began trading on the NASDAQ stock exchange on November 3, 2014 under the ticker symbol "SNC".
3. **Key Financial Metrics:** As of December 31, 2014, the estimated consolidated GAAP financial leverage of SNC, measured as total debt to total capital was 15.8%. The company's interest coverage as of the same date was approximately 10.8.

Below is a summary of SNIC's financial results (2011 – 2016 YTD):

	[\$'s in Thousands]					
	2016 YTD thru Q1	2015	2014	2013	2012	2011
Assets	316,276	319,311	290,719	218,791	206,886	204,377
Liabilities	82,667	89,482	74,877	63,225	59,077	63,669
Capital & Surplus	233,609	229,829	215,842	155,566	147,809	140,708
Dividends Paid	0	0	0	0	0	0
UW Gain/(Loss)	2,014	6,392	1,542	1,648	1,476	4,279
Net Investment Income	627	2,750	3,510	3,374	3,343	4,290
Net Income	1,297	5,555	3,224	2,503	4,926	5,692
1-Yr. Res. Dev./PYE PHS	NA	0.4%	-0.1%	-0.3%	0.0%	-1.3%
2-Yr. Res. Dev./2nd PYE PHS	NA	0.3%	-0.4%	0.0%	-0.8%	-2.5%
RBC Ratio	NA	441%	465%	486%	587%	450%
UW Expense Ratio	43%	38%	48%	52%	66%	54%
Loss/LAE Ratio	54%	49%	43%	40%	39%	40%
Combined Ratio	97%	87%	91%	92%	105%	94%
GPW/Surplus	258%	257%	233%	307%	307%	293%
NPW/Surplus	24%	24%	24%	27%	21%	37%
FAST Score	NA	350	300	400	575	250
Exceptional IRIS Results	NA	2	2	3	3	2
<u>Writings:</u>						
DPW	145,069	575,883	491,280	467,377	447,091	405,141
Assumed	2,618	14,029	11,303	9,786	6,393	7,767
Ceded	137,971	533,732	450,419	435,184	423,156	360,982
Net	9,716	56,180	52,164	41,979	30,328	51,926

Comments:

- **Capitalization:** SNIC received a \$53 million surplus contribution in 2014 (this coincided with the sale of 31,050,000 shares of SNC's common stock in 2014).
- **Underwriting Results (Per the A.M. Best Credit Report):** Overall, the group's combined ratio over the period trails that of its composite (although, the group has been able to generate strong underwriting results despite soft market conditions). This is a direct reflection of State National's success in the CPI marketplace along with the benefit of substantial fees garnered from its program business. The excellent experience for the CPI business is somewhat offset by the high expenses associated with servicing this business. These expenses are incurred mainly in the form of commissions and management fees paid to an affiliated MGA for servicing this business. The group, through its affiliated MGA, utilizes state of the art technology to monitor the loan portfolios of its insured financial institutions. While costly to administer this business, these initiatives have been instrumental in producing the group's historically favorable net loss ratios.

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?

Comments: Review of the pro forma financial statements did not raise any discernible concerns regarding UNSIC's ability to satisfy Wisconsin's licensure requirements post-acquisition.

- 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 Form A review did not identify any discernible competitive market concerns.

- 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: The Form A review did not identify any discernible concerns regarding State National's financial condition.

- 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?

Comments: The Form A review did not identify any discernible plans or proposals that would jeopardize UNSIC, its policyholders, or 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?

Comments: Review of the Biographical Affidavits did not raise any discernible concerns regarding the competence or integrity of the Applicant's officers and directors.

Application Follow-up

The Applicant, per letters dated 7/22/16 and 8/4/16, adequately addressed the issues identified in OCI's July 7, 2016 application follow-up letter.

Conclusion

It is recommended that the proposed acquisition of control of United National Specialty Insurance Company by State National Companies, Inc. and State National Insurance Company, Inc. be approved on the basis that there are no statutory grounds for denial pursuant to s. 611.72 (3), Wis. Stat.

