

*In the Matter of the Restructuring of
Sentry Insurance a Mutual Company
to a Mutual Holding Company
and a Stock Insurance Company
Case No. 20-C43622*

**TESTIMONY OF TODD M. SCHROEDER
VICE PRESIDENT AND TREASURER
SENTRY INSURANCE A MUTUAL COMPANY**

**OCTOBER 23, 2020
MADISON, WISCONSIN**

Q: What is your name?

A: Todd Michael Schroeder.

Q: What positions do you currently hold with Sentry Insurance a Mutual Company? For the sake of brevity, why don't we refer to the Company as "SIAMCO" or the "Company" during your testimony.

A: I am the Vice President and Treasurer of SIAMCO.

Q: How long have you held those positions?

A: I have been the Vice President and Treasurer since March 2017.

Q: How long have you worked for SIAMCO, and what other positions have you held with the Company?

A: I started working for SIAMCO in April 2008 as a Business Unit Controller, and have previously been the Director of Finance from December 2009 to August 2012, the Senior Director of Finance from August 2012 to March 2013, the Assistant Vice President — Commercial Lines Products from March 2013 to January 2016, and the Vice President of Life & Annuities from January 2016 to March 2017.

Q: Were you involved in considering the proposed conversion of SIAMCO into a mutual holding company structure?

A: Yes, I have been involved in discussions around the conversion since 2018, and have been involved in the preparation of the current Mutual Holding Company Plan.

Q: Mr. Schroeder, I'd like to discuss the financial impact of the proposed conversion on SIAMCO. Do you have the personal knowledge to do that?

A: Yes, I do.

Q: Great. Please describe SIAMCO's current financial results.

A: As of December 31, 2019, SIAMCO had capital and surplus in excess of \$5.9 billion, and approximately \$9.5 billion in net admitted assets. SIAMCO is the current ultimate parent of the Sentry group of companies, which is among the largest mutual property/casualty insurance organizations in the U.S.

Q: Is SIAMCO rated by any rating agencies?

A: Yes. SIAMCO and the Sentry group of companies are rated by A.M. Best, the leading rating agency for the insurance industry. SIAMCO and the Sentry group of companies have been rated "A+" (Superior) by A.M. Best, with a stable outlook, for 29 consecutive years.

Q: In his testimony, Kip Kobussen described SIAMCO's 11 insurance company subsidiaries and 4 affiliated insurance companies. Does SIAMCO have financial arrangements with these subsidiaries and affiliates other than through owning stock in them?

A: Yes; SIAMCO provides management and other services to its subsidiaries and affiliates, participates in a pooling arrangement with certain of its property and casualty subsidiaries and affiliates, and reinsures large portions of the business written by a number of its subsidiaries and affiliates.

Q: Please describe the intercompany pooling and reinsurance arrangements between SIAMCO and its insurance company subsidiaries and affiliates.

A: SIAMCO is the lead entity in a pooling arrangement with certain of its property and casualty subsidiaries and affiliates. The pool participants cede 100% of their direct and assumed premiums, losses, loss adjustment expenses, and underwriting expenses, net of all cessions to nonaffiliated parties, to SIAMCO, and the net pooled business is then distributed according to the following participations: SIAMCO (54.0%), Dairyland Insurance Company (17.5%), Middlesex Insurance Company (10.0%), Sentry Select Insurance Company (10.0%), Viking Insurance Company of Wisconsin (5.0%), Sentry Casualty Company (2.5%), and Florists' Mutual Insurance Company (1.0%).

In addition to this pooling agreement, SIAMCO has quota share agreements to reinsure 100% of the business of Sentry Lloyds of Texas and Dairyland National Insurance Company.

Q: In his testimony, Kip Kobussen identified enhanced access to capital as an advantage of the proposed conversion. Are you knowledgeable about SIAMCO's capital structure and able to testify to the same today?

A: Yes, I am.

Q: Does SIAMCO have any current need for additional capital?

A: No, it does not. SIAMCO is extremely well capitalized today and has the financial strength to meet its present and future obligations to its policyholders, employees, and creditors. This is evidenced by SIAMCO's policyholder surplus in excess of \$5.9 billion and its "A+" (Superior) A.M. Best rating, with a stable outlook. The Mutual Holding Company Plan does not provide for any sale of stock (whether voting or non-voting) or the issuance of any debt securities to any outside investors, and the Company has no plans for any such securities offering in the future.

Q: Does SIAMCO's management expect that the proposed conversion will have any effect on the Company's financial strength?

A: The proposed conversion is not expected to negatively impact the Company's financial strength, as shown in the financial projections that SIAMCO has provided to the Wisconsin Office of the Commissioner of Insurance. On the contrary, SIAMCO and its

Board of Directors believe that the proposed conversion will help the company grow profitably and further strengthen its financial condition in the future. Additionally, if unexpected future events placed significant stress on SIAMCO's financial strength, the Company would be better positioned to raise additional capital after the proposed Conversion. Accordingly, I submit that the proposed conversion has a positive effect on the Company's financial strength.

Q: I'd like to discuss the statutory requirement that the proposed conversion be approved by the Wisconsin Commissioner of Insurance before it can go into effect. Are you aware of that standard?

A: Yes, I am aware.

Q: And are you familiar with the findings that the Wisconsin Commissioner of Insurance must make under Chapter 644 of the Wisconsin Statutes as a basis for approving the Mutual Holding Company Plan?

A: Yes.

Q: One of the statutory requirements is that the Mutual Holding Company Plan be fair and equitable to SIAMCO's policyholders. From a financial perspective, do you think the proposed conversion is fair and equitable to the Company's policyholders?

A: Yes, I do. First, as Kip Kobussen described, the proposed conversion will have absolutely no impact on the insurance coverage SIAMCO provides to its policyholders, other than the fact that such coverage will be provided by a stock insurer rather than a mutual insurer. This means that the insurance and other benefits provided to, and the premiums charged to, SIAMCO's policyholders will not be changed as a result of the conversion. Second, as I discussed previously, the proposed conversion will strengthen SIAMCO's financial position. This is not only fair and equitable to SIAMCO's policyholders, it is to their advantage.

Q: Another of the statutory requirements is that the proposed conversion not be contrary to the interests of SIAMCO's policyholders or of the general public. From a financial perspective, do you think the proposed conversion is contrary to the interests of SIAMCO's policyholders or the general public?

A: No, I do not. The proposed conversion will have no negative impact on the financial strength of SIAMCO, and the Company does not anticipate that its A.M. Best rating will change or be placed under review with negative implications as a result of the proposed conversion. In fact, as I stated earlier, the proposed conversion is good for the strength and security of SIAMCO, and is accordingly in the best interests of the Company's policyholders and the general public.