November 14, 2016

American Family MHC Restructuring Comments
Office of the Commissioner of Insurance
P.O. Box 7873
Madison, WI 53707-7873

Dear Insurance Regulators:

I am writing today to urge you to reject the restructuring proposal submitted by American Family Insurance.

Acting as a power-of-attorney agent for my mother, I received a proxy voting form and a *Policyholder Information Booklet* dated September 30, 2016 from American Family.

I started reading the information booklet expecting the proxy voting form to cover a fairly mundane set of issues. Instead, the booklet described a restructuring proposal that sounded quite odd. Some online research quickly revealed that the *mutual insurance holding company* is an idea that should have been dead almost twenty years ago.

Starting in the late 1990s, David Schiff wrote extensively about the problems with this kind of restructuring in his newsletter, Schiff's Insurance Observer.[1] Many of the articles are case studies of particular insurance companies, but page 7 of the February 1998 issue provides a list of the main problems with mutual insurance holding companies.[2] Some examples from the list follow:

> *"6. Assets that now belong solely to the policyholders will be transferred-either by dividend, loan, or corporate opportunity to the intermediate holding company."*
>
> *"8. A mutual insurance company is a cooperative form of organization. The concept of mutuality is fundamentally at odds with the stock-company concept of outside ownership."*

Many state legislatures rejected bills during the late 1990s that would have allowed insurance companies to restructure into mutual insurance holding companies. When considering such a bill in 1998, the Assembly Insurance Committee for New York state submitted a report to the State Assembly that included the following quote from Joseph M. Belth, Emeritus Professor of Insurance Indiana University:

> *"The mutual holding company concept is fundamentally flawed. If the implications of the type of reorganization were disclosed, most mutual policyowners would vote against the reorganization. On the other hand, if safeguards not contemplated in the proposed bill were instituted, prospective shareholders would be reluctant to invest in the reorganized enterprise."*[3]

The *Policyholder Information Booklet* from American Family talks extensively about voting rights after restructuring, and perhaps this idea is supposed to resonate during a Presidential election season. But these voting-rights discussions sidestep the most important issue, which is the loss of policyholder

1 See http://www.insuranceobserver.com/archive/
2 *Why We Hate Mutual Insurance Holding Companies, Top Ten Reasons*
Page 7, http://www.insuranceobserver.com/PDF/1998/020198.pdf
3 See http://assembly.state.ny.us/Reports/Ins/199803/

ownership of the company that would occur under the proposed restructuring.

This loss of ownership opens American Family to a potential class-action lawsuit by its policyholders. Richard Rambeck, the former editor of Insurance Week, wrote a 2001 article describing the attempted restructuring by Principal into a mutual insurance holding company.[4] The Iowa Department of Insurance approved the plan, but the threat of a class-action lawsuit encouraged Principal to go through a full demutualization.

As a policyholder of Principal, the author of this 2001 article stood to lose his ownership in the company in exchange for *nothing* under the original restructuring plan. Under full demutualization, according to the article, he received over $16,000 in stock in the new company, or cash. This example highlights the magnitude of what a policyholder can lose under a restructuring to a mutual insurance holding company.

In addition to the loss of ownership, the other main problem with American Family's proposal is that it provides no clear benefits to the policyholders.

Page FAQ-3 of the *Policyholder Information Booklet* states that the new company structure would allow American Family to "... grow and respond to future needs, challenges, and opportunities in the rapidly changing insurance industry ..." The section then goes on to say that the restructuring benefits policyholders by "... enhancing the Company's ability to acquire and grow ancillary or non-insurance businesses."

It is not evident how these abilities would benefit policyholders. These examples only appear to increase risk for the company and its policyholders. Insurance companies are not speculative Silicon Valley startups that can crash and burn with the damage limited to their risk-taking investors. Insurance companies sell *insurance*. Insurance companies must be careful, conservative, stable, even boring — and closely watched by state insurance regulators.

Please reject this restructuring plan of American Family Insurance. Furthermore, the fact that the Board of Directors submitted a plan that is so profoundly unfair to its policyholders suggests that American Family deserves even closer scrutiny from your office.

Sincerely,

Fred Schleifer
111 Vanwoert Rd
Spencer NY 14883

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4 *Mutual Holding Company: A Shell Game Without the Pea*
http://www.insurancejournal.com/magazines/partingshots/2001/04/30/18694.htm