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CUNA MUTUAL GROUP

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WISCONSIN COMMISSIONER
OF INSURANCE

January 15, 2007

Mr. Tim VandeHey
Insurance Examiner Supervisor,
Financial Analysis and Examination Bureau
State of Wisconsin, Office of the Commissioner of Insurance
GEF 3, 2nd Floor
125 South Webster Street
Madison, WI 53702

RE: Proposed Transfer of Domicile of CUNA Mutual Insurance Society, CUMIS Insurance Society, Inc. and MEMBERS Life Insurance Company from the State of Wisconsin to the State of Iowa (collectively, "CUNA Mutual" or "CUNA Mutual Group")

Dear Mr. VandeHey:

Thank you for your letter of January 8, 2007 and the time you spent at our meeting that same day. As we discussed at that meeting and in earlier meetings, CUNA Mutual wishes to merge CUNA Mutual Insurance Society and CUNA Mutual Life Insurance Company with the surviving entity domiciled in Iowa for a number of reasons, the most critical of which is to be positioned to protect the interests of our policyholders in the event of significant changes in the credit union market which could lead to a wave of conversions from credit unions to banks or other serious disruptions and require CUNA Mutual to change its capital structure to address this possibility. For ease of reading, we are reproducing the questions posed by the Wisconsin Office of the Commissioner of Insurance ("OCI") and following those questions with our responses. All language from OCI's January 8 letter is bolded to make it easily identifiable.

1. **Please identify any tax implications that are anticipated as a direct result of the redomestications of the CUNA Mutual Group from Wisconsin to Iowa.**

Response:

Minor state impacts across the group are expected to occur in Wisconsin franchise tax, premium taxes, retaliatory premium taxes, personal property tax credits and life guaranty assessment credits. Redomestication to Iowa will result in annual net savings of approximately $259,000.

2. **Please identify any tax implications specific to the anticipated merger between CUNA Mutual Insurance Society ("CMIS") and CUNA Mutual Life Insurance Company ("CMLIC").**

Response:

Federal Taxation

We expect that the merger transaction itself will qualify as a tax free reorganization for federal income tax purposes. We will obtain a letter ruling or opinion of tax counsel as a condition to closing that the proposed merger will be tax free for Federal income tax purposes.

With respect to CMIS' ongoing tax liability, following the merger, CMIS will continue to be taxed as a life insurance company for federal income tax purposes.

Rules governing consolidated tax returns of life and non-life companies and combinations of such groups are extremely complex. We have examined these complexities and the differences in the tax schemes for life and non-life insurance companies. While the calculation of tax liability will differ, with the following exception, we believe that the overall tax liability will be materially the same following the merger as the combined tax liability prior to the merger:

> We anticipate a large permanent Federal income tax savings related to the elimination of double taxation on future distributions of accumulated earnings and profits of a non-consolidated, non-insurance subsidiary through the operation of the dividends received deduction. Even though the future tax would have been proportionate to and dependant on the level of actual dividend distributions of the subsidiary in any particular year, the savings will be realized immediately as the future tax liability is eliminated by the merger. The total future tax liability eliminated is currently estimated to be nearly $18 million.
>
> Prior to the proposed merger, the subsidiary does not meet the stock ownership requirements for inclusion in either shareholder's consolidated tax return. Dividend distributions received by the shareholders will be subject to a second layer of corporate income tax in addition to the income tax paid at the subsidiary level. Effective cash tax rates on dividends from this subsidiary were estimated to be 33.6 % and 31.3 % for CMIS and CMLIC respectively. The effective cash tax rate on these dividends of the merged entity is 0%.

We will actively manage the combined entities tax situation to the benefit of the merged organization. This includes managing specific tax items as well as taking advantage of new planning opportunities. Examples of these types of items include:

- continue to actively manage tax basis capital gains and losses after the merger to take full advantage of available offsets
- more rapid use of non-life net operating loss carry forward
- tax savings associated with increases in the dividends received deduction as a result of higher combined ownership in invested entities

The merger will necessitate certain changes in tax accounting which may result in minor changes in tax. We expect these to be timing in nature and short in duration as they are expected to affect primarily fixed assets, certain items of investment income and certain tax reserves.

CMIS, CMLIC and their employee plans invest in various Registered Investment Companies ("RICs"). With respect to RICs that have diversified ownership, we do not believe that the merger will result in a "change in ownership" to the RIC and as a result do not believe that the merger will have any tax impact. With respect to RICs without diversified ownership, the merger could result in some record keeping challenges and minor acceleration of capital gains.

State Taxation

We estimate a one-time expense of approximately $180,000 due to the loss of life guaranty assessment credits as a result of the merger. Also, changes in the state tax apportionment factors are expected to generate minor changes in state income tax.

3. **Please identify any revenue streams to the CUNA Mutual Group that are expected to be achieved from either the redomestications or the merger apart from tax implications. In your response, please distinguish between the two events.**

Response:

We do not expect to achieve any revenue streams from the redomestication. The merger will result in a net increase in revenue for CMIS because of the elimination of CMLIC as an entity and from the elimination of the intercompany reinsurance relationships that currently exist. We have completed a pro-forma view of 2006 statutory revenue for CMIS both as it currently exists and after the impacts of the merger. Premium and annuity considerations for life and accident and health contracts for CMIS would increase from $1.46 billion to $2.60 billion. Total income, including investment and miscellaneous income, would increase from $1.7 billion to $3.00 billion. After the merger and the elimination of intercompany reinsurance, the only revenue that will be reflected in MEMBERS Life Insurance Company will be direct premium of approximately $6.5 million. The merger has no impact on the revenue streams of CUMIS Insurance Society, Inc.

4. **Please identify any cost savings or efficiencies that are expected from either the redomestications or the merger. Again, please distinguish between the two events in your response.**

Response:

CUNA Mutual currently estimates cost savings of $500,000 annually from the merger, not including the annual tax savings discussed earlier in this letter. The savings are achieved through efficiencies such as a combined financial examination process, reduction in the number of statutory blanks that need to be filed, elimination of certain external audit opinions, and streamlined reporting and valuation due to the elimination of intercompany reinsurance treaties.

No expense decreases are expected as a result of redomestication. Differences in such things as examination cycles could result in timing differences.

5. **Please identify any employment impact in the State of Wisconsin as a result of either the redomestications or the merger.**

Response:

CUNA Mutual has operated in Wisconsin since 1935 and is committed to this State. The redomestications are a move, in the best interests of policyholders, to position the company to make changes, if necessary, in a state that has adopted more modern laws and is somewhat more experienced with insurance company conversions. We do not anticipate any employment impact in Wisconsin as a result of either the redomestication or the merger.

6. **Please identify any employment commitments the CUNA Mutual Group has made to the State of Iowa.**

Response:

No employment commitments have been made to the State of Iowa. We have represented to Iowa that we anticipate no change in employment levels in Iowa as a result of either redomestication or merger.

Rationale for Redomestication Requests

The filings made with this office regarding CUNA Mutual Group's request for the redomestications allude to differences between existing Wisconsin and Iowa laws relating to both mutual holding company restructuring and potential demutualization that contributed to the selection of Iowa as the preferred domicile.

7. **Please identify specific differences between the Iowa and Wisconsin laws that are significant, identify those differences that are influential to CUNA Mutual Group's decision to redomesticate, state whether CUNA Mutual will stipulate to an order imposing the Wisconsin requirement notwithstanding redomestication, and if not, state the reason as to each difference.**

Response:

CUNA Mutual's initial filing of October 13, 2006 (in the text of the cover letter, the accompanying chart comparing Iowa and Wisconsin insurance law, and a follow-up chart sent at the OCI's request further focusing on mutual holding company (MHC) and demutualization laws) identified numerous specific differences between the laws. For your convenience, we have attached both comparison charts to this response letter. None of these differences was in itself a determinative factor in our request to change our state of domicile; rather, as discussed in these responses, it is the totality of the effect of the differences, in light of a rapidly changing marketplace, that makes us believe that an Iowa domicile would better position CUNA Mutual to respond to future challenges and opportunities. Specific distinctions between several of the two states' laws are discussed in greater detail in responses to questions 13 through 25.

It bears repeating that CUNA Mutual Group has no current intention to demutualize or to reorganize into an MHC structure. The references to Iowa as the preferred domicile for either

such transaction are in the abstract at this time and are part of CUNA Mutual Group's general broad efforts to position itself for maximum flexibility should CMIS seek to demutualize or restructure in the future, including especially in the event such a transaction were to become critical for protection of policyholders. Also, the preference for Iowa as the domicile does not relate entirely to differences in the statutes; rather, the Iowa Department of Insurance has considerable experience in both types of transactions, having completed at least two large-company transactions in each category (Amerus and Principal, both to MHCs and then in subsequent demutualizations). In addition, the only public offering in the U.S. of stock of an intermediate holding company in an MHC structure was done by an Iowa MHC (Amerus).

Accordingly, we believe that there would be less uncertainty in terms of the process and the application of the laws in the event of any of these transactions. We also believe that, due to its considerable experience in these particular areas, the Iowa Department would be more attuned to the issues around creating a public market for the stock, and that a transaction would, as a result, be more likely to get to market faster, which could be important for protection of policyholders in some situations, as more fully discussed in response to question 8.

Many other differences exist between the statutes of the two states, with some being procedural and others substantive, and some much less significant than others. We believe it would be inappropriate, and that the Iowa Commissioner would undoubtedly object, if CUNA Mutual were to stipulate that Wisconsin law or laws, especially when in conflict with Iowa law, would govern indefinitely into the future with respect to a demutualization or MHC conversion of what would then be an Iowa mutual company. It is doubtful that the Iowa Commissioner would be able to approve a redomestication or merger on that basis. Moreover, it would be practically (as well as legally) impossible to distinguish in the application of Iowa or Wisconsin law between the policyholders pre- and post-merger. Also, it would be very difficult, if not impossible, to craft a plan on that basis that is fair and equitable to all policyholders.

Finally, even as to the significant differences between Iowa and Wisconsin law, CUNA Mutual believes that policyholders would be better protected with a statutory framework, such as Iowa's, that allows more flexibility and greater sensitivity to requirements of the capital markets. A stipulation to Wisconsin law would therefore forfeit the benefits of those protections for our policyholders. The Wisconsin demutualization law was enacted more than a decade before the Iowa law and at a time when insurance companies and their products were far less complex. The structures and processes in the Wisconsin law, including many discussed below, are not as adaptable to modern-day complexities and provide no flexibility to deal with currently unknown future considerations.

In addition to the differences between the two states' laws, discussions with CUNA Mutual representatives, including President and Chief Executive Officer Jeff Post, indicated that the number of credit unions has decreased significantly over the years as a result of numerous market pressures facing credit unions. Ongoing threats to credit unions tax exempt status places additional pressures on credit unions and threatens to further deteriorate the competitive advantages credit unions have within their marketplace. The CUNA Mutual Group, having been organized for the purpose of providing for the insurance needs of credit unions, credit union organizations and credit union members, represents that it is planning and acting to address these changing needs of its members.

8. **Please describe how the above-referenced and other potential challenges to credit unions may result in the CUNA Mutual Group having to consider potential mutual holding company restructuring or demutualization to address the needs of its members.**

Response:

CUNA Mutual was formed and continues to serve the insurance needs of credit unions and their members. Over time, the number of credit unions in the United States declined from a high level of approximately 24,000 credit unions to 8,700 credit unions today. Without any exogenous events, the number of credit unions is decreasing at the rate of about one per day. Most of the decline is the result of credit unions merging into other credit unions in an effort to address operational, financial and competitive challenges. This results in larger but fewer credit unions. This consolidation has led CUNA Mutual to the vulnerable position of being highly dependent on a small number of credit unions.

There is a risk that an exogenous event could occur that could cause larger numbers of credit unions to convert to banks. An example of such an exogenous event would be loss of the credit union tax exemption. Credit unions obviously receive a financial benefit from the exemption. The trade-off for that benefit is that credit unions are subject to some operational constraints that are not applicable to banks, including business lending and membership (i.e., potential customers) limitations. If the tax exemption is eliminated or significantly reduced[1], credit unions may see very little reason not to convert to banks in order to eliminate the operational constraints. Other potential exogenous events include financial/reputation shock to the credit union system and changes in regulatory oversight.

At this time, we believe that CUNA Mutual should remain focused on serving the credit union system. We also believe that it is a competitive advantage for CMIS to remain a mutual organization like our cooperative credit union customers. However, if a significant number of credit unions convert to banks, or if a continually consolidating credit union marketplace presents unanticipated challenges for CUNA Mutual, we may need to adopt an aggressive strategy to pursue other markets. Entering other markets could be achieved either (a) organically through development of new products for different customers (assuming time permits[2]) and/or acquisition of new products and customers or (b) through combining forces with one or more other entities that have different products and customers. These strategies could require more capital than CUNA Mutual currently has available or a need for stock as an acquisition currency. With some of these potential strategies, demutualization of CMIS could

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[1]One event related to the tax exemption is beginning to take form. The IRS has shared drafts of rulings that it expects to issue early this year outlining categories of income that it considers to be unrelated to a credit union's exempt function and therefore subject to tax. Income from all but one insurance product is considered unrelated along with other categories of income. While, as currently proposed, this IRS position will only affect state chartered credit unions, it could create a platform for applying the same rules to federally chartered credit unions. In addition, it could make the insurance products that CUNA Mutual Group sells to credit unions financially less attractive. CUNA Mutual and the rest of credit union system believe that the anticipated IRS rulings are flawed in many respects, and they will be vigorously challenged. We do not believe that these decisions alone (i.e., without further loss of the tax exemption for federal credit unions) will result in a significant increase in the rate of credit union to bank conversions.

[2] Many of CUNA Mutual's products and services are not transferable to other financial institutions; products, infrastructure and distribution channels would need to be restructured to serve other institutions. See response to question 12 for further discussion of this challenge.

become necessary (or possibly, though less likely, conversion to an MHC). Currently, we believe that, absent a significant change in the credit union marketplace, CUNA Mutual will be able to undertake organic growth strategies in its mutual form that will keep it financially strong in the future. However, we also believe that it is in the best interest of policyholders to ensure that the company is positioned in the best way possible to take advantage of structural options in the future in the event it becomes necessary to protect the financial soundness and long-term viability of the company. Our request to redomesticate to Iowa is based on the flexibility for structural change inherent in Iowa law and experience that may be necessary to respond to changes in the credit union industry, enabling us to better protect policyholders and respond to their needs.

9. **Please discuss the equity interest credit unions and their members have as policyholders in the CUNA Mutual Group and its potential significance in relation to other balance sheet assets credit unions currently hold.**

Response:

Credit unions and their members have a mutual ownership interest in CMIS and would have statutory rights to consideration in the event of a demutualization. We believe that the "equity interest" policyholders have in CMIS is today not one that many/most regularly keep in mind. As more credit unions examine membership rights in their own organizations, they may also begin to examine their membership rights in CUNA Mutual. Obviously, there are many questions related to the value of any particular credit union in CUNA Mutual. However, this will not foreclose a credit union or group of credit unions from taking the position that credit unions and their members "own" a substantial portion of CUNA Mutual's value and that CUNA Mutual should demutualize so that credit unions and their members can realize that value. Credit unions examining this issue will see that CUNA Mutual's value (i.e., between $1 and $3 billion) is not insignificant compared to total credit union system assets (approximately $83 billion). CUNA Mutual needs to position itself to be sensitive to the potential trends in the credit union industry so that it can better respond to its policyholders' needs.

CUNA Mutual representatives also indicated that if credit unions do end up losing their tax exempt status, credit unions may become encouraged to convert to banks which would likely be a precursor to any potential mutual holding company restructuring or a demutualization of the CUNA Mutual Group.

10. **Please describe the typical process credit unions would follow to convert to a bank and the approximate timeframes one generally would expect regarding the conversion.**

Response:

It is worth noting again that there may be various reasons in the future (some of which we cannot predict) for CUNA Mutual to engage in a restructuring for the benefit of policyholders. Our position is that the best interests of policyholders are served by positioning the company in a way that provides the most flexibility. While loss of credit union tax exempt status may result in a need for CUNA Mutual to convert its structure, it is not the only reason.

The conversion process to a federal thrift takes approximately six months to a year. Credit union management prepares a conversion proposal, including a business plan for board approval. Once board approval is received, the credit union files applications with appropriate regulators, including the NCUA, the Office of Thrift Supervision, and the FDIC. The NCUA reviews only the membership disclosure and the proposed process for obtaining member consent through a vote. The FDIC and OTS review the application for the new charter. If the application is approved and the members vote to approve the conversion, the conversion becomes effective on the chosen date.

11. **Please describe how the CUNA Mutual Group would likely attempt to coordinate its potential conversion efforts with credit unions.**

Response:

We do not envision that we would try to "coordinate" any future change in CUNA Mutual's structure with conversion efforts of credit unions. However, credit union conversions would be a key driver of a change in CMIS strategy that could suggest that a change in CUNA Mutual's structure is needed.

12. **Please describe CUNA Mutual Group's ability to provide insurance coverage to credit unions as they convert to banks including the timing of any cancellation of coverage that may occur as a result.**

Response:

CUNA Mutual and its subsidiaries have continued to offer some products and services to credit unions that have converted to banks. However, the companies are not in a position to offer a number of their products and services to credit unions that convert to banks, especially stock banks. Nor are they well-positioned to retain the policies that have continued following conversion. Listed below are some examples of the types of challenges that exist and that would have to be overcome, requiring time and capital, in order for CUNA Mutual to competitively offer products to and retain business with banks:

- **Operational.** Several of our important products are designed to interface with the processes and technology used by credit unions (which in turn are sometimes driven by regulatory requirements unique to credit unions). For such products, we would need to redesign these operational elements (or acquire the necessary additional capability) in order to offer products and services to banks.
- **Distribution.** We have a significant distribution channel that is set up to serve credit unions. We do not have the various distribution capabilities (e.g., personnel, and sales and marketing materials) necessary to effectively market and sell to banks. Bank differences that impact the distribution channels and techniques include business drivers, customer value propositions, informal networking system, customer behaviors, and business strategies. There is also significant discord between these two markets such that each market could be expected to have some concern about CUNA Mutual using "learnings" from partnering with it that could benefit the other market.
- **Customer knowledge.** Many of our value-added services that make our product offerings attractive are tailored to the needs of credit unions. We would need to acquire the knowledge regarding the operational workings of banks, including

their regulatory frameworks, so that we could design these value-added services to be beneficial to the banks. Without this redesign, our programs likely would not be competitive.

- **Scale.** Continuation of our products and services to converting credit unions adds the challenge of economies of scale. If we do not at the same time market the products or services to banks generally, the costs associated with making these changes likely could not be justified because at least initially there would not be sufficient economies of scale.
- **New risks.** Some of our products would have very different risk profiles in the bank environment (particularly stock banks) than they do in the credit union environment. Examples where risks may differ include litigation and regulatory risks associated with a D&O policy and lending practices that impact certain products, including collateral protection and mortgage insurance. Our policies and rates are designed for the credit union risks.

It bears mentioning that some CUNA Mutual products are more easily transported to banks than others. However, even for those products, our ability to retain that business diminishes over time unless we develop global capabilities to serve the banking market—our value-added and service focus developed for credit unions would not otherwise evolve to the needs of the banking market.

As to the timing of any cancellation of coverages upon conversion to a bank, those coverages we could not offer to a bank would terminate either upon the effective date of conversion or at the time of renewal of the policy.

Mutual Holding Company (MHC) Law

Please indicate whether CUNA Mutual is prepared to stipulate to an order imposing restrictions, notwithstanding redomestication, on a mutual holding company conversion that parallel the following Wisconsin law, and if not state the reason(s):

As a preface to CUNA Mutual's responses to questions 13 through 16, CUNA Mutual states that it has no present plan to form an MHC and convert to stock status either CMIS or CMLIC, or the surviving mutual insurance company of the proposed merger of CMIS and CMLIC should the merger be approved by the appropriate state insurance regulatory agencies and the policyholders. In the event that the CMIS board of directors ever determines that it is in the best interest of its policyholders to convert to MHC or stock status, the board and management have a fiduciary obligation to act in good faith to obtain what they believe to be the result in the best interest of policyholders within the existing law.

We note also, with regard to the OCI questions concerned with stock ownership, that an important part of the CMIS policyholder base is credit unions and their members. Currently, credit unions are prohibited by both federal and most states' laws from owning stock in an insurance company or an insurance holding company.

13. Wisconsin law limits the ability of officers, directors, and management from directly or beneficially acquiring voting stock for at least one year after the initial sale in a public offering.

Response:

CMIS is prepared to stipulate that if it converts to an MHC structure within three years following the effective date of its redomestication to Iowa, the MHC plan that it proposes for approval of the Iowa Commissioner and the CMIS policyholders will include restrictions on the direct and beneficial ownership of voting stock by its directors, principal officers and senior management for at least one year following the effective date of an initial public offering to third parties of the voting stock of either the converted stock insurance company or an intermediate stock holding company.

14. Wisconsin law limits officers, directors and other members of management of the MHC, any intermediate holding company or the converted insurance company from individually, directly or beneficially owning more than 5% or, in the aggregate, more than 10% of any class of voting stock.

Response:

CMIS is prepared to stipulate that if it converts to an MHC structure within three years following the effective date of its redomestication to Iowa, the MHC plan that it proposes for approval of the Iowa Commissioner and the CMIS policyholders will include a restriction on the acquisition, directly or beneficially, by its directors, principal officers and senior management of more than 5% individually or 10% in the aggregate of voting stock of the converted insurance company or an intermediate holding company.

15. Wisconsin law requires a converting insurer to comply with an ongoing dividend plan approved by the commissioner as fair and reasonable to the policyholders.

Response:

Under Wisconsin MHC law, a dividend plan means "a plan to provide reasonable assurances to the policyholder dividend scales of the participating individual policies." CMIS has in force only a very small amount of business that constitutes "participating individual policies" and has dividend expectations. Furthermore, as a part of the proposed merger between CMIS and CMLIC, each company established a Special Committee of the Board of Directors to represent each company's interests and the interests of each company's policyholders. One of the considerations of the Special Committees has been a CMIS dividend plan for the combined company, and the Special Committees have indicated that an on-going dividend plan will be agreed upon as a part of the merger process. The Committees' extensive consideration of the plan has occurred in close consultation with the highly regarded Milliman USA actuarial firm. Milliman will provide an actuarial fairness opinion with respect to the plan.

If both the Wisconsin and Iowa Commissioners approve the redomestication of CUNA Mutual to Iowa, the merger will take place under Iowa law, and the agreed dividend plan that is to be a term of the merger will require the approval of the Iowa Commissioner. In the event that the

board of directors of CMIS, as the surviving company of the merger, ever determines in the future that it is in the best interests of the company and its policyholders to convert to an MHC structure, Iowa law will require the Iowa Commissioner's approval to any proposed change in the dividend plan that was approved as a part of the CMIS/CMLIC merger. Therefore, we do not believe that policyholders gain any significant advantage by having CMIS agree to this condition.

16. **Wisconsin law requires commissioner approval of the price, or procedure for setting the price, for any stock issue of the reorganized insurance company or intermediary holding company.**

Response:

If the Wisconsin and Iowa Commissioners approve the redomestication of CMIS to Iowa, in the event that the board of directors of CMIS ever determines in the future that it is in the best interests of the company and its policyholders to convert to an MHC structure, and further that it is also in the best interests of the company and its policyholders to issue stock of the converted insurance company or an intermediate holding company, Iowa Admin. Code § 191-46.10(2) would require that CMIS make application to the Iowa Commissioner for approval of the stock offering. Such an application must contain "[a] justification for a uniform planned offering price or a justification of the method by which the offering price will be determined." In addition to obtaining the Iowa Commissioner's approval of the planned offering price or the method by which the price will be determined, Iowa Admin. Code § 191-46.10(6) requires the Iowa Commissioner to hold a public hearing on initial stock offerings at which all interested parties may appear and present evidence and argument regarding the applicant's planned offering. In order to obtain the Iowa Commissioner's approval, the offering price or the method for determining the offering price must be "consistent with generally accepted market or industry practices for establishing stock offering prices in similar transactions" and the offering must not "unfairly impact the interests of members" of the MHC. CMIS respectfully suggests that the policyholder protections in Iowa's laws and regulations are at least equal to, and may well exceed those provided under Wisconsin law, specifically the Wisconsin provision requiring the Wisconsin Commissioner's approval of the price of the stock or the procedure for setting the price. Therefore, there should be no need to impose this additional condition to assure that pricing is done properly.

Demutualization

Please indicate whether CUNA Mutual is prepared to stipulate to an order imposing restrictions, notwithstanding redomestication, on a demutualization that parallel the following Wisconsin law, and if not, state the reason(s):

As a preface to CMIS' responses to questions 17 through 25, CMIS states that it has no present plan to demutualize either CMIS or CMLIC, or the surviving mutual insurance company of the proposed merger of CMIS and CMLIC should the merger be approved by the appropriate state insurance regulatory agencies and the policyholders. In the event that the CMIS board of directors ever determines that it is in the best interest of its policyholders to demutualize, the board and management of CMIS have a fiduciary obligation to act in good faith to do so in a manner that will be fair and equitable to policyholders and in compliance with existing law.

We note also, with regard to the OCI questions concerned with stock ownership, an important part of the CMIS policyholder base is credit unions and their members. Currently, credit unions are prohibited by both federal and most states' laws from owning stock in an insurance company or an insurance holding company.

17. **Under Wisconsin law, the commissioner appoints an appraisal committee, consisting of at least 3 qualified and disinterested persons with differing kinds of training, to determine the value of the corporation.**

Response:

Wisconsin demutualization law was enacted almost 40 years ago and has not been amended since enactment. Much has changed during that 40 years in the size and complexity of insurance organizations and in the markets in which they operate. We respectfully suggest that Wisconsin's process is ill-suited to modern demutualizations, which have used market valuations, generally as established by initial public offerings, to determine the value of demutualizing companies. Typically in these demutualizations, the entire value of the company is being distributed to policyholders, and the plan of conversion requires an initial public offering ("IPO") both to establish a market and to ensure liquidity. The IPO establishes the value for purposes of determining what will be paid to any policyholders receiving cash or policy credits in lieu of stock. In such cases, the only relevant value to policyholders would be the market value, both at the time of the demutualization and also subsequently when they sell their stock. In those few cases where the value has been set in the form of an offering price and terms by another company seeking to acquire the mutual in a sponsored demutualization, the market will also have set the value, subject to approval by the board of directors, the insurance Commissioner and the policyholders of the acquisition and the terms thereof, including the price. Indeed, a valuation as required by Wisconsin law could conceivably even have a negative impact on the pricing of stock in an IPO, or on the price in, or feasibility of, a sponsored demutualization.

The tenor of this provision also suggests that its drafters did not contemplate a process that, assuming it would involve an IPO, would include all of the safeguards, for policyholders as such and as shareholders, of registration with the Securities and Exchange Commission, including the level of disclosure that would be required as a result. Moreover, in the Principal demutualization, which included an IPO, and in the IPO of the intermediate holding company in the Amerus MHC structure, the Iowa Commissioner imposed additional safeguards in the form of oversight over the IPO process, including the structure and other terms. The processes in place in Iowa, as demonstrated in past Iowa transactions, demonstrate that the market value of any demutualizing company in Iowa will be fully and fairly determined by market forces in a context that assures protection of policyholder and shareholder rights.

18. **Under Wisconsin law, if the form of policyholder consideration is stock in a holding company which holds the stock of the converted insurance company, then no stock may be issued by the converted insurance company except to the holding company for a period of five years after the conversion effective date.**

Response:

While we would not necessarily expect that stock in a converted insurance company subsidiary of a holding company would be issued within the first five years, or ever, CUNA Mutual believes that it would not be in the best interest of policyholders to limit flexibility in this way. Companies occasionally do take downstream companies public, or sell common or preferred stock to private investors, and there could be sound business reasons why it would be in the best interest of policyholders to do so. CUNA Mutual's goal, and what CUNA Mutual considers to be in the best interests of its policyholders, is to maximize flexibility to be able to respond to future needs and circumstances, including ones that cannot now be anticipated.

19. **Wisconsin law requires that any new issue of stock for the 5 years after the conversion shall first be offered to persons that became shareholders as a result of the conversion.**

Response:

Please see the responses to questions 17 and 18 above. CUNA Mutual respectfully suggests that this Wisconsin provision does not provide the necessary flexibility to accommodate CUNA Mutual's unique circumstances. CUNA Mutual believes that such a requirement could have a negative effect on an initial IPO, to the detriment of policyholders, as well as on any subsequent offerings. In addition, it could prevent potential third-party investors that policyholders might welcome, depending on the terms and the facts and circumstances. It also does not recognize the fiduciary duties that the Board would have to its shareholders to act in their best interests; indeed, it could create obstacles to the Board in satisfying such duties. We also note that such a requirement might be particularly problematic for a company with both credit union and non-credit union policyholders insofar as there are federal and state laws limiting and in some cases prohibiting the former from owning stock of insurance companies directly or indirectly. Thus, it may be that at least some credit union policyholders will never be among persons that became ultimate shareholders as a result of the conversion.

20. **Wisconsin law prohibits compensation other than regular salaries from being paid to any existing personnel in connection with the proposed conversion.**

Response:

Wisconsin law and Iowa law are similar in their prohibition of payment of compensation or consideration to directors, officers and employees of the converting company, other than regular salary and compensation, in connection with a conversion. However, Iowa law gives flexibility to the Iowa Commissioner to approve additional compensation if it is stated in the conversion plan, which itself must be fair and reasonable to the converting company's policyholders and approved by the board of directors, the Iowa Commissioner and the policyholders. CMIS believes that there could be instances when a company and its policyholders may be best served by using success bonuses to assure the consummation of the transaction and the retention of its senior management and key employees throughout and after the conversion. One example would be a sponsored demutualization in which it may serve the policyholders well to pay success bonuses to management and key employees to find a suitable "white knight" and to remain throughout the transaction to maintain a stable management and work force during transition. There are other examples, as well.

As noted above, Iowa law restricts the payment of additional compensation unless it is included in the plan and the Iowa Commissioner and policyholders approve the plan as fair and reasonable. CMIS believes that retaining this flexibility is in the best interests of CMIS and its policyholders. Further, CMIS is reluctant to make any commitment that may reduce the flexibility that Iowa law has deemed necessary and appropriate for the regulation of Iowa-domiciled companies. CMIS, therefore, would be reluctant to agree to a commitment that could, in the long run, be detrimental to CMIS and its policyholders and limit the flexibility of Iowa regulators to address whatever circumstances may arise.

21. Wisconsin law requires that the market value of the converting company be paid to policyholders in stock or otherwise. Wisconsin law does not permit the "closed block of business" or the "liquidation account" options permitted by Iowa law, neither of which require distribution of the market value of the company to the policyholders.

Response:

CMIS believes that retaining the option of pursuing a "closed block of business" or a "liquidating account" for any future demutualization that may occur is in the best interests of CMIS and its policyholders. Rather than rule out one or more options, we believe that maintaining a flexible approach to address whatever circumstances the future may present is the best way to assure the protection of policyholders and ensure they are treated in a fair and reasonable manner.

22. Wisconsin law requires excess distribution of market value to be paid to the state of Wisconsin.

Response:

CMIS' interpretation of Wisconsin law does not require the excess value, if any, of a life insurance company to be distributed to the State of Wisconsin. Section 611.76(4)(e) reads in part as follows:

> That no policyholder, *other than a policyholder of a mutual life insurance company*, may receive a distribution of shares valued in excess of the amount to which he or she is entitled under s. 645.72(4). Any excess over that amount shall be distributed in shares to the state treasury for the benefit of the common school fund. (Emphasis added.)

CMIS believes that Wisconsin law clearly excludes policyholders of mutual life insurance companies from the distribution restrictions in Wis. Stat. § 611.76(4)(e). It is likely that the difference in the nature of the products sold by property and casualty companies and by life companies played a role in the Insurance Laws Revisions Committee proposal and the Wisconsin Legislature's adoption of the exception for life insurance policyholders. Even if this law did apply, we fail to see why it would be more beneficial to policyholders to require that the state gets any excess value rather than policyholders.

23. **Wisconsin law limits the percentage ownership of common stock by directors and officers for 5 years after the conversion.**

Response:

CMIS is prepared to stipulate that if it demutualizes within three years following the effective date of its redomestication to Iowa, any demutualization plan that it proposes for approval of the Iowa Commissioner and the CMIS policyholders will include restrictions on the direct and beneficial ownership of voting stock by its directors, principal officers and senior management to an aggregate of 5% of the voting stock. Any voting stock acquired by directors, principal officers and senior management through a company benefit plan that is available to management generally will not be subject to the ownership restriction.

Please describe how the following differences between Iowa and Wisconsin law will affect a demutualization:

24. **Under Iowa law, policyholders who have a right to notice of the conversion and to vote on the plan are those who have policies or contracts that are in force on the date of adoption of the plan of conversion. Under Wisconsin law, all persons who were policyholders on the date the board adopted the resolution on conversion have a right to vote.**

Response:

CMIS believes that the slight difference in timing for determining which policyholders have the right to vote on the conversion plan could result in a slightly different group of policyholders voting on a demutualization under Iowa law than under Wisconsin law. However, CMIS does not believe that the small difference caused by the timing variation is significant.

CMIS also notes that under Iowa law, any demutualization plan must be approved by two-thirds of the demutualizing company's voting policyholders. Wisconsin law requires approval by only a majority of the company's voting policyholders.

25. **Under Iowa law, policyholders are entitled to consideration if their policy or contract is in force on the effective date of conversion and has been in effect continuously for one year prior to the date of adoption of the plan of conversion. Under Wisconsin law, all persons who have been policyholders and have paid premiums within five years prior to the board resolution adopting the plan of conversion shall be entitled, without additional payment, to common stock of the new stock corporation in proportion to their equitable share of the value of the converting corporation. In your response, please include discussion of the potential impact of these differences to credit unions that would be converting to banks that you previously discussed in questions 7 through 10. Please include an estimate and description of the how s. 611.76 (4) (e), Stats., is likely to apply, and the result, to a demutualization. Please include an analysis of the application of s. 611.76 (4) (e), Stats., in the context of large numbers of credit unions converting and ceasing to be policyholders in a short period of time.**

Response:

The difference described would affect the persons eligible for consideration in a demutualization. Under Wisconsin law, current policyholders would share consideration with persons who had been policyholders during any of the preceding five years, whereas under Iowa law, the starting point for eligibility would be current policyholders with contracts in force for at least a year. We note that five years is an extraordinarily long look-back period for eligibility; most modern statutes do not have look-back periods at all, and the older statutes that do have them use shorter periods. We see tremendous practical challenges (a) in administering this requirement and (b) in crafting a fair and equitable plan that would attempt to apply this provision to former policyholders of the Wisconsin company without applying it to former policyholders of the company currently domiciled in Iowa as there is no legal or other basis for applying it to the latter group.

Insofar as credit unions convert to banks but do not continue to be policyholders as banks, ceasing to be subject to the Wisconsin provision may have no particular impact. Where a converted credit union ceases upon its conversion to be a policyholder (e.g., because the product is specific to a credit union and not adaptable to a bank policyholder), the Wisconsin law would sweep such a former policyholder in (if within five years), whereas the Iowa law would not automatically do so. We believe that the Iowa law does provide the flexibility to deem such policyholders eligible if there is a compelling reason, in the interest of fairness, to do so, subject, of course, to approval by the board of directors, the Iowa Commissioner and policyholders. Although we are not privy to all the facts, it would appear that something like this was done in the plan of conversion of Principal Mutual Holding Company, and persons have been deemed to be eligible policyholders in a number of other situations in demutualizations under Michigan and New Jersey law. Indeed, the flexibility of the Iowa law would appear to permit solutions to be customized to the issues presented rather than applying a five-year lookback that might not address all issues and that might sweep in cases that would not otherwise be implicated in a fairness analysis.

We also note that the Special Committees of the CMIS and CMLIC boards of directors have devoted considerable attention to the issue of "orphaned surplus" and are drafting the proposed merger agreement in a way that creates the ability for the board of directors to take into account former policyholders' contribution to surplus in the event of any change in corporate structure subsequent to merger.

We have not addressed the questions about s. 611.76 (4)(e) for the reasons set forth in the response to question 22 above.

Policyholder Notice/Voting

26. **Please provide a sample of the notice, required statements and amended articles and/or bylaws in the form in which these would be presented to policyholders (members) for their vote. Please describe the extent to which the issues described in this letter will be disclosed to policyholders and whether and how redomestication will be the subject of a policyholder vote.**

Response:

CMIS has not completed preparation of the policyholder notice, policyholder disclosure statement, and amended articles and bylaws as of the date of submission of this response. However, attached is the most current version of the draft articles and bylaws, which remains

subject to revision. We will provide a copy of the policyholder notice and policyholder disclosure statement when completed, as well as any updates to these documents as they are available.

27. **Please identify whether the company intends to use ballots, proxies, or both in its efforts to tally the decisions of its policyholders (members) concerning the redomestications. Please include a description of how proxies will be solicited or utilized, including whether there will be a separate proxy solicitation with respect to this vote.**

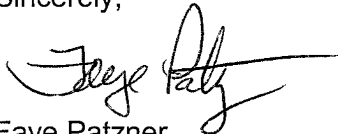
Response:

The redomestication of CMIS requires policyholder approval because of the amendments to the Articles of Incorporation that are necessary as part of redomestication. The proposed changes to the CMIS Articles will be submitted for consideration of all policyholders eligible to vote. This will be done via a ballot process, the same process that was used in a 2001 policyholder vote to amend the Articles. All policyholders eligible to vote will be provided with full disclosure and information concerning the amendments and reason for them, as well as a recommendation from the CMIS board of directors concerning the amendments. We do not plan any efforts to actively solicit the return of ballots beyond strongly encouraging their return in the policyholder mailing materials.

Finally, in response to the request at the end of your letter, by my signature below I verify that the boards of directors of the three Wisconsin insurers seeking to redomesticate to Iowa have been sent copies of this letter and the January 8 letter from OCI.

As we discussed at our last meeting, we would like to discuss this response with you in person as soon as can be arranged.

Sincerely,



Faye Patzner
Senior Vice President & General Counsel

Encl.