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April 6, 2016

HAND DELIVERY

Kristin L. Forsberg, CPA, CFE
Insurance Financial Examiner/Company Licensing Specialist
Bureau of Financial Analysis and Examinations
Office of the Commissioner of Insurance
125 South Webster Street, 2nd Floor
Madison, WI 53707-

**RE: Form A - Acquisition of control of NorthWestern National Insurance
Company of Milwaukee, Wisconsin by SOBC Gamma Holding Company
Limited**

Dear Kristin:

Thank you for your letter dated March 24, 2016 regarding this Form A filing. Your inquiries are set forth in bold below followed by the responses of SOBC.

1. **Stock Purchase Agreement - Schedule 2.02 (b) Government Consents:** Schedule 2.02 states that two conditions that will need to be satisfied prior to closing include:
 - (a) Seller will need to obtain OCI's approval or non-disapproval of the Post-Retirement Obligations Transfer and Intellectual Property Assignment through the preparation, submission, and prosecution of a Form D application pursuant to s. 617.21 of the Wisconsin Statutes and s. Ins 40.04 of the Wisconsin Administrative Code.
 - (b) Seller will need to obtain OCI's approval or non-disapproval of the amendment and/or termination of that certain Restructuring Agreement between Seller, NNIC and Armco Financial Services Corporation dated September 30, 1999.

Please state how the Seller intends to seek OCI's approval for these items (i.e. - through a Form D filing to OCI), and state when you anticipate these items will be filed with OCI.

In addition, please indicate whether the parties seek approval of these items in conjunction with OCI's approval of the Form A.

Seller filed a Form D for these items on April 1, 2016. SOBC requests that OCI permit those transactions in conjunction with OCI's approval of the Form A.

2. Identity and Background of Individuals Associated with the Applicant: Form A, Item 3, states that "Background checks on these persons [directors and officers of SOBC Corp. and SOBC Gamma] will be submitted to the Wisconsin Office of the Commissioner of Insurance as soon as possible."

Please indicate when you expect these Background Checks will be submitted to OCI.

SOBC has requested the background checks from Business Information Group, Inc., 251 Veterans Way, Warminster, PA 18974. We are checking with BIG on the status of the background checks, and we will update you as soon as possible.

3. Proposed Officers and Directors of Domestic Insurer:

Please identify the proposed officers and directors of the Domestic Insurer (and submit biographical affidavits, if not previously submitted).

As noted in Item 5 of the Form A, the new board of directors of NNIC will consist of Thomas Hodson, Stephanie Mocatta, Harry Witcher, and Richard Whatton. New officers will be Stephanie Mocatta, President; Thomas Hodson, Secretary and General Counsel; and Brian Johnston, Treasurer and CFO. Biographical affidavits for these individuals were included in Appendix 3 to the Form A.

4. Intercompany Services Agreement (Appendix 6):

Please submit a revised Intercompany Services Agreement to reflect the following:

- (a) **Name of the Insurer: The Agreement refers to the domestic insurer as "NorthWestern National Insurance Company." The domestic insurer's legal name is: "Northwestern National Insurance Company of Milwaukee, Wisconsin"). Please correct all references to the domestic insurer to reflect the domestic insurer's legal name.**

- (b) **Compensation**: The March 18, 2016 response letter stated: “Upon reconsideration, it has been determined that SOBC will charge an annual flat fee of \$250,000, rather than charging actual costs and using any allocation methodology.” Please revise Section 2 and Exhibit B of the Intercompany Services Agreement to reflect this change.

The revised Intercompany Services Agreement is enclosed with this letter. Please note that we found no need to revise Section 2 for the change to a flat fee, as Section 2 only refers to Exhibit B for the compensation (and notes that it will be paid quarterly, which would also apply to the annual flat fee). Also note that Exhibit B to the revised agreement is the same as the Exhibit B that was included as Exhibit 12 to my March 18, 2016 letter (which unfortunately did not reference that enclosure).

5. **Disclaimers of Control**: The response to OCI’s February 22, 2016 follow-up letter stated: “A disclaimer of control for SOBC Limited, Stephanie Mocatta, and Richard Whatton will be submitted as soon as possible. Harry Witcher also does not ‘control’ SOBC Holdings Plc as defined in Wis. Stat. § 600.03(13), but it is my understanding that he does not need to disclaim control unless there is a presumption of control because he owns *more than 10%* of the voting securities of SOBC Holdings Plc.”

Per s. 600.03(13), Wis. Stat.: “There is a rebuttable presumption of control if a person directly or indirectly owns, holds with the power to vote, or holds proxies to vote more than 10% of the voting securities of another person.” Please note that OCI has historically interpreted this section to mean: Once the owner attains (directly or beneficially) *10% or more* of the voting securities of the insurer (or the ultimate controlling person), then the presumption of control applies.

Please provide disclaimers of control for Stephanie Mocatta, Richard Whatton, and Harry Witcher at your earliest convenience.

We filed a disclaimer of affiliation for SOBC Limited, Stephanie Mocatta, and Richard Whatton under cover of my letter dated March 21, 2016, and we filed a disclaimer of affiliation for Harry Witcher on March 31, 2016.

* * * *

We hope this information is responsive to your inquiries. If you have any questions,

Kristin L. Forsberg, CPA, CFE
April 6, 2016
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please do not hesitate to contact me or Tom Hodson of SOBC (at thomas.hodson@sobccorp.com
or 860-614-3656). Thank you for your expeditious consideration

Very truly yours,

QUARLES & BRADY LLP

A handwritten signature in black ink, appearing to read "William J. Toman", with a long horizontal flourish extending to the right.

William J. Toman

WJT:mjw
Enclosures

cc (w/enc): Thomas Hodson
Steven J. Junior

Intercompany Services Agreement

THIS INTERCOMPANY SERVICES AGREEMENT is entered into effective as of the ___ day of _____, 2016 by and between **SOBC Services Company Limited**, a Connecticut corporation (“Provider”) and **Northwestern National Insurance Company of Milwaukee, Wisconsin**, a Wisconsin corporation (“Insurer”).

WHEREAS, Provider desires to provide to Insurer and Insurer desires to receive from Provider, certain support services related to Insurer’s operations;

NOW, THEREFORE, in consideration of the agreements set forth herein, the parties agree as follows:

1. Provision of Services

- 1.1 *Services*. Provider shall provide to Insurer and Insurer agrees to receive from Provider the support services as described on Exhibit A attached hereto and incorporated herein (the “Services”). Provider shall also provide additional services reasonably requested by Insurer and which both parties agree to be necessary for effective management of Insurer. Insurer shall comply with all reasonable rules as may from time to time be made or established by Provider regarding its provision of Services. Before such rules or any changes thereto, and within 10 days after receipt of such notice, Insurer may give written notice to Provider disapproving the rules or changes thereto for reasonable cause, in which case they shall not take effect. In the absence of such notice by Insurer, the rules or changes thereto shall be deemed to be acceptable to Insurer.
- 1.2 *Standard of Performance*. In performing the Services, Provider shall act at all times in a professional manner in accordance with industry standards, devoting its efforts in good faith and with reasonable diligence to the performance of this Agreement. Provider shall also perform the Services in a manner that will allow Insurer to operate effectively and efficiently. To the extent that Provider’s performance of the Services is not readily quantifiable, then a methodology for measuring Provider’s performance in matters where it is not quantifiable shall be determined by mutual agreement of Insurer and Provider. Insurer shall maintain oversight for functions provided to Insurer by Provider, including by monitoring services annually for quality assurance.
- 1.3 *Authority*. (a) Insurer authorizes Provider to administer the affairs of Insurer as specifically set forth in this Agreement. The Board of Directors of Insurer shall be the governing body of Insurer and shall at all times exercise ultimate control over the financial assets, management and operation of Insurer.

- (b) Provider shall have the authority to subcontract for services subject to the approval of Insurer, which shall not be unreasonably withheld, to perform the Services. Provider shall require in its agreements with such subcontractors that they perform their duties in accordance with this Agreement.
- (c) Insurer shall cooperate with, and shall cause its employees, agents and independent contractors to cooperate with personnel provided by Provider hereunder so that Provider may perform its duties under this Agreement.
- (d) Any funds or invested assets of Insurer held by Provider are the exclusive property of Insurer, are held for the benefit of Insurer, and are subject to the control of Insurer.

1.4 *Relationship.* This Agreement shall not be construed to create any partnership, joint venture or employer/employee relationship between Insurer and Provider, or in any way to make one party responsible for the debts and any other obligations of the other party. In no event shall any of the employees or independent contractors of Provider be considered to be the employees or leased employees of Insurer. It is expressly understood and agreed by the parties that Insurer and Provider shall at all times be acting as entities independently contracting with each other for the performance of the Services. Neither party shall have the power to bind or obligate the other party except as set forth in this Agreement.

1.5 *Nonexclusivity.* Insurer understands and agrees that the Services shall be provided to Insurer on a non-exclusive basis, and that other parties shall have the right to the use of Provider's services. Provider understands and agrees that Insurer shall use the Services on a non-exclusive basis, and that Insurer shall have the right to receive services from other parties.

2. Compensation

As compensation for Provider's provision of Services to Insurer hereunder, Insurer shall pay to Provider the compensation set forth on Exhibit B. Provider shall bill Insurer for such compensation at least quarterly. Insurer shall pay each such bill within ten (10) days after receipt. Insurer shall not advance funds to Provider except to pay for services defined in this Agreement.

Insurer shall be responsible for the payment of the following expenses that each incur or that are incurred by Provider on Insurer's behalf, which are not included in this Agreement: broker's commissions, assessments, reinsurance, outside legal and accounting (audit) services, state and federal taxes.

The parties shall be in compliance with the requirements in the NAIC Accounting Practices and Procedures Manual as it relates to this Agreement.

3. Representations and Warranties

Each party, with respect to itself, warrants and represents to the other that:

- 3.1 It is duly organized, validly existing and in good standing under the laws of its state of domicile, having all requisite authority necessary to carry on its business as now conducted, to own and operate its assets, properties and businesses, and to enter into and carry out the terms and conditions of this Agreement.
- 3.2 This Agreement has been executed and delivered on its behalf by its duly authorized and acting officers and is its valid obligation enforceable by the other party in accordance with its terms.
- 3.3 It is, and shall remain during the term hereof, in compliance with all applicable state and federal laws and regulations.

4. Indemnification

Provider shall indemnify, defend, and hold Insurer harmless from any and all liabilities, including the costs of defense and settlements, paid or incurred by Insurer as a result of the gross negligence or willful misconduct of Provider in providing services under this Agreement. Insurer shall, as a condition of such indemnification, notify Provider within ten (10) days after receipt of notice of any claim against Insurer for which Insurer seeks indemnification. Provider shall be entitled to make such investigation, settlement, or defense of the claim as it deems prudent.

5. Books and Records

- 5.1 *Maintenance.* Each party shall maintain books, accounts and records in a manner that clearly and accurately discloses the nature and details of this Agreement, including the accounting information which is necessary to support the reasonableness of the charges or fees to the respective parties, and, in accordance with generally accepted accounting principles, permits ascertainment of charges relating to this Agreement.
- 5.2 *Access.* The parties agree to provide, upon written request in accordance with applicable state and federal law, reasonable access to their respective books and records to the extent necessary (a) to enable Insurer to fulfill its contractual obligations to insureds and to arrange for the provision of its coverage, and (b) to enable Insurer to assess Provider's performance of Services hereunder.
- 5.3 *Retention.* Provider shall maintain and retain books and records pertaining to Insurer dating back five (5) years at all times or until delivered to Insurer by Provider. The Wisconsin Commissioner of Insurance ("OCI") may examine, audit or accept an audit of the books and records as provided under § 601.43(1), (3), (4) and (5), to be

conducted as provided in § 601.41 with costs to be paid as provided in § 601.45. Each party shall retain a copy of this Agreement for the duration of the Agreement and for five (5) years thereafter.

5.4 *Ownership.* All books and records of Insurer are and remain the property of Insurer and are subject to control of Insurer. In this Agreement, the books and records of Insurer are defined to include all books and records developed or maintained under or related to the Agreement.

6. Term and Termination

6.1 *Term.* Provided that this Agreement has been permitted by OCI, the Agreement shall become effective _____, 20__ and shall remain in effect until terminated by either party.

6.2 *Termination.* This Agreement may be terminated in any of the following events:

(a) *Without Cause.* Either party may terminate this Agreement upon at least ninety (90) day's prior written notice to the other party.

(b) *Nonpayment.* In the event Insurer fails to make any payment required hereunder within ten (10) days after such payment is due, Provider shall have the right to terminate this Agreement upon at least ten (10) days' prior written notice to Insurer.

(c) *Other Cause.* In the event either party fails to perform or observe any covenant, condition or agreement to be performed or observed by it hereunder, other than as described in Section 6.2(b), and the defaulting party does not cure the default within sixty (60) days after written notice thereof, then the non-defaulting party shall have the right to terminate this Agreement upon at least thirty (30) days prior written notice to the defaulting party, which notice shall specify the failure to cure the default.

(d) *Mutual Agreement.* By mutual agreement of the parties at any time.

6.3 *Consequences of Termination.* In the event of termination of this Agreement for any reason, the parties hereto agree to cooperate with one another to prevent a disruption of Insurer's operations. The procedures to govern the parties' conduct after termination of this Agreement are as follows.

(a) Provider shall continue its duties to assure that all insureds of Insurer shall receive appropriate services and benefits until the effective date of termination of this Agreement.

(b) Provider shall conduct its affairs prior to the effective date of termination of this Agreement in such a manner that would allow an orderly takeover of the duties of Provider by another provider or by Insurer itself.

- (c) On or before the effective date of termination of this Agreement, Provider shall return all files, business records, and other supplies that relate to Insurer and are necessary to allow Insurer to continue its operations. Provider shall return such items in a manner that will allow Insurer to continue its operations.

6.4 *Delinquency.* Provider has no automatic right to terminate this Agreement if Insurer is placed in receivership pursuant to chapter 645 of the Wisconsin Statutes.

7. Miscellaneous

7.1 *Delinquency.* If Insurer is placed in delinquency proceedings or seized by OCI under chapter 645 of the Wisconsin Statutes:

- (a) All of the rights of Insurer under this Agreement extend to the receiver or OCI; and
- (b) All books and records of Insurer will immediately be made available to the receiver or OCI, and shall be turned over to the receiver or OCI immediately upon the receiver or OCI's request; and
- (c) Provider will continue to maintain any systems, programs, or other infrastructure notwithstanding such proceeding or seizure, and will make them available to the receiver for so long as Provider continues to receive timely payment for services.

7.2 *Assignment.* The assignment of this Agreement by in whole or in part by either party, without the other party's prior written consent, is expressly prohibited.

7.3 *Governing Law.* This Agreement shall be construed in accordance with the laws of the State of Wisconsin.

7.4 *Complete Agreement.* This Agreement contains the entire agreement between the parties, and supersedes any and all prior agreements and negotiations between the parties. This Agreement may not be modified, terminated or discharged except in a writing executed by both parties.

7.5 *Impossibility of Performance.* Neither Insurer nor Provider shall be deemed to be in breach of this Agreement if prevented from performing any obligations hereunder for any reasons beyond its control including, without limitation, acts of God or of any public enemy, flood, or storm, strikes, or action or inaction of any federal, state or local regulatory agency.

7.6 *Counterparts.* This Agreement may be executed in any number of counterparts, each of which shall be deemed to be an original instrument and all of which together shall be deemed to be one and the same instrument.

IN WITNESS WHEREOF, the parties have caused this Agreement to be executed on this ____ day of _____, 20__.

**NORTHWESTERN NATIONAL INSURANCE COMPANY OF MILWAUKEE,
WISCONSIN**

By:

Name:
Title:

SOBC SERVICES COMPANY LIMITED

By:

Name:
Title:

Exhibit A

Provider Services for Insurer

Provider and Insurer agree that Provider will perform services on behalf of Insurer which shall include, but may not be limited to depending on the needs of Insurer, the following:

A.01 Financial Management. Provider shall perform financial management functions and shall provide related services, management and clerical staff and support as required to administer Insurer's business adequately and appropriately, including but not limited to the following:

- (a) Design, and implement an accounting and finance system, appropriate for the scope of Insurer's operations, to provide Insurer with financial information about its business.
- (b) Maintain bank accounts used in the operations of Insurer, which shall be opened by Insurer in its own name, as follows:
 - 1. All receipts and monies arising from the operations of Insurer received by Provider shall be held in a fiduciary capacity. Provider shall immediately deposit all such receipts and monies into the accounts established by Insurer.
 - 2. Disbursements from Insurer bank accounts by Provider shall be authorized in advance in accordance with policies adopted or amended by Insurer from time to time.
 - 3. Payment to Provider of a premium or charge by or on behalf of an insured is payment to Insurer, but payment of a return premium or claim by Insurer to Provider is not payment to an insured until the payment is received by the insured; provided, however, that this sentence does not limit any right of Insurer against Provider for failure to make payments to Insurer or an insured.
- (c) Establish and maintain all necessary accounting journals.
- (d) Establish and maintain all backup records for accounting and managerial control. In the event such backup records are lost or destroyed, Provider will reconstruct them as soon as reasonably possible.
- (e) Establish and maintain all necessary tax-related records and prepare and file annual corporate income and other tax filings.

- (f) Prepare balance sheets, income statements, and cash flow statements on a monthly basis and a budget for each calendar year a reasonable time before the beginning of the year.
- (g) Perform all billing and collection functions for amounts owed by Insurer to its vendors and for accounts receivable of Insurer.
- (h) Develop appropriate premium rates.
- (i) Develop an appropriate and fiscally prudent asset management plan to determine cash flow needs of Insurer and to manage and invest Insurer's assets and cash reserves. Such cash management plan shall include provisions for the settlement of Insurer's obligations to providers for funds withheld by Insurer to create cash reserves.
- (j) Evaluate proposals of auditors and recommend to the Insurer Board an outside auditor to conduct an annual audit of Insurer's financial condition and results of operations. The Board shall have the ultimate authority to select the auditing firm.
- (k) Perform financial recovery activities on behalf of Insurer to obtain funds Insurer is entitled to under reinsurance, subrogation and coordination of benefits.
- (l) Prepare and submit financial filings required by the Office of the Commissioner of Insurance (OCI).

A.02 Claims Processing. Provider shall perform claims processing functions and shall provide related services, management and clerical staff and support as required to administer Insurer's business adequately and appropriately including but not limited to:

- (a) Provide claims processors or contract for services needed for claims administration.
- (b) Accept claims; input claim data; process claims data against the policy benefits, eligibility requirements and limitations; check claims for duplication; evaluate claims to determine their validity and the proper amount payable, if any; and pay, pend, or deny each claim; provided, however, that claims shall be paid only by drafts or checks as authorized in advance in accordance with policies adopted or amended by Insurer from time to time.
- (c) Administer subrogation programs.
- (d) Store claims data for future reference and analysis.

- (e) Respond to all inquiries about status of claims.
- (f) Provide Insurer with immediate written notice of any actions or proceedings filed against Insurer, evaluate such actions or proceedings, retain counsel approved by Insurer, supervise the conduct of the defense and keep Insurer advised as to the progress of the litigation.

A.03 Data Processing. Provider shall provide, or contract for, data processing services, computerized claims processing and management information systems and shall provide related services, management and clerical staff and support as required to administer Insurer's business adequately and appropriately including but not limited to:

- (a) Arrange for the installation and operation of an automated claims processing and management information system (the "System").
- (b) Provide personnel, technical assistance, training and user documentation for the operation of the System.
- (c) Provide maintenance and support services necessary for any improvements, enhancements, and/or modifications of the System.

A.04 General Administration. Provider shall perform general administrative functions and shall provide related service, management and clerical staff and support as required to administer Insurer's business adequately and appropriately including but not limited to:

- (a) Provide, maintain and repair necessary office space to operate Insurer. Insurer shall meet, or cooperate with Provider to meet, Provider's obligations under the Lease.
- (b) Provide personnel or other means of access by telephone or otherwise to answer all inquiries from insureds, vendors, and others as necessary or expedient for effective operation.
- (c) Provide staff support for and assist Insurer in developing its long-range strategic plan.
- (d) Provide Insurer with immediate written notice of any actions or proceedings filed against Insurer, evaluate such actions or proceedings, retain counsel approved by Insurer, supervise the conduct of the defense, and keep Insurer advised as to the progress of the litigation.

- (e) Arrange for Insurer to purchase or lease equipment and supplies necessary to operate Insurer, which shall be paid for by Insurer directly or indirectly by payment to Provider as provided in Section 2 of the Agreement.

A.05 Marketing and Underwriting. Provider shall perform marketing and underwriting functions and shall provide related services, management and clerical staff and support as required to administer Insurer's business adequately and appropriately, including but not limited to:

- (a) Formulate, revise as necessary, and implement a plan for advertising and marketing Insurer's coverage; provided, however, that Provider shall not use any advertising unless Insurer approves the advertising in advance of its use.
- (b) Recommend to Insurer and assist Insurer in the appointment and termination of any agents or subagents selling Insurer's plans based on necessary forms and fees as prepared by Provider.
- (c) Supply agents with proper application forms, certificates, advertising and training material and all other material normally used in the solicitation of Insurer plans.
- (d) Upon receipt of applications for coverage by Insurer, promptly underwrite and issue appropriate contracts in accordance with the underwriting standards of Insurer attached hereto as Exhibit A-1, as amended by Insurer from time to time.
- (e) Calculate, bill and collect all premiums on Insurer coverage.
- (f) Draft all contracts, policies, certificates, booklets, termination notices or other written communications delivered by Insurer to insureds or agents, and obtain regulatory approval for same where required.

A.06 Regulatory Relations. Provider shall perform regulatory relations functions and shall provide related services, management and clerical staff and support as required to administer Insurer's business adequately and appropriately, including but not limited to the following;

- (a) Receive, review and formulate a response, as appropriate, to statements, inquiries and communications from regulatory agencies with authority over Insurer ("Regulators").
- (b) Seek approvals from Regulators, and make filings with them, as required by law and as necessary or expedient to Insurer's business.

Exhibit A-1

Underwriting Standards of Insurer

To be determined.

Exhibit B

Compensation

In consideration of the Services provided under the Agreement, Insurer shall pay Provider (1) a take-up fee of \$60,000 upon execution of this Agreement, and (2) \$250,000 annually, payable in quarterly installments (or a pro rata share for partial quarters) at the beginning of each quarter that this Agreement is in effect.