



State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

Scott Walker, Governor
Theodore K. Nickel, Commissioner

Wisconsin.gov

July 7, 2016

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MR KEVIN FITZGERALD
ATTORNEY
FOLEY & LARDNER LLP
777 E WISCONSIN AVE
MILWAUKEE WI 53202

Re: Form A – Acquisition of Control of United National Specialty by State National Companies, Inc. and State National Insurance Company, Inc.

Dear Mr. Fitzgerald:

The State of Wisconsin Office of the Commissioner of Insurance (“OCI”) has completed an initial review of the Form A filing submitted on June 9, 2016 by State National Companies, Inc. (“SNC”) and State National Insurance Company, Inc. (“SNIC”) (collectively, the “Applicant”) for the acquisition of control of United National Specialty Insurance Company (“UNSIC”). Our review identified certain items requiring follow-up, as indicated below. To ensure that the Form A review continues to move forward expeditiously, please provide the following information at your earliest convenience:

1. Form AA – Consent to Jurisdiction: s. Ins 40.19 of the Wisconsin Administrative Code requires that any person required to file consent under s. 617.11 (5) of the Wisconsin Statutes shall do so using the Consent to Jurisdiction Statement (Form AA) found at the end of Chapter 40 of the Wisconsin Administrative Code. Please submit an executed “Consent to Jurisdiction” statement.
2. Nephila Capital, Ltd.: Item 8 of the Form A discussed an “Alliance Agreement” between State National, Nephila Capital, Ltd. (“Nephila”) and Nephila Holdings, Ltd. (“Holdings”) dated November 15, 2015, as amended, whereby Holdings has an option to acquire ownership of UNSIC from State National, and in certain circumstances, State National has an option to sell a portion of its ownership of UNSIC to Holdings.

In addition, Item 8 states that State National and Nephila have agreed to transition some of the admitted insurance business written by State National and its affiliates which is reinsured by Nephila to UNSIC after the closing. Please provide the following information:

- a) Please provide the dollar value of premiums ceded by the State National and its affiliates to Nephila for each of the last 3 years. In addition, please discuss how this business is reported and disclosed in State National Insurance Company, Inc.’s statutory financial statements and in the Notes to Financial Statements.
- b) Please provide a copy of the referenced “Alliance Agreement” between State National, Nephila Capital, Ltd. and Nephila Holdings, Ltd.

3. Holding Company Structure/Ownership:

- a) Ownership of State National Companies, Inc.: The Form A states that 28.485% of the outstanding common stock of State National Companies, Inc. represents shares held by Terry Ledbetter individually, and by trusts, and a private foundation for which Terry Ledbetter is the grantor.

Please provide a breakout of the % ownership held by Terry Ledbetter individually, by each trust (please include the name of each trust, and indicate whether the trust is revocable or irrevocable), and by the private foundation (please include the name of the private foundation).

- b) SNC Financial GP, LLC and SNC Financial LP, LLC: Please explain the business purpose of these entities, the role these entities serve in the State National holding company system, and the ownership of these entities.
- c) T.B.A. Insurance Group, Ltd: Please explain the business purpose of this entity, the role this entity serves in the State National holding company system, and the ownership of this entity.

In addition, if T.B.A. Insurance Group, Ltd. is an MGA, please discuss: Does the Texas Dept. of Insurance consider State National Insurance Company, Inc. to be a producer-controlled insurance company? If yes, please discuss the reporting, disclosure and other requirements for producer-controlled insurance companies under Texas law.

- d) T.B.A. Statutory Trust I, III, and IV: Please explain the purpose and nature of these Trusts, identify the owners of each trust (and the % ownership), their investment holdings, and the reason for their placement between T.B. A. Insurance Group, Ltd. and State National Intermediate Holdings, Inc. within the holding company system.
- e) Holding Company Registration Statement: Please provide a copy of State National Insurance Company, Inc.'s 2015 Form B/C Holding Company Registration Statement.

4. SNIC's Financial Examination Report: Please provide a copy of SNIC's most current financial examination report (as of 12/31/10).

5. Redomestication to Texas: The Form A indicates that the Applicant intends to cause UNSIC to redomesticate from Wisconsin to Texas immediately after the closing, and has filed the appropriate paperwork with the Commissioner of the Texas Dept. of Insurance to facilitate the redomestication.

Please provide the contact information (name, email address, telephone #) for the individual at the Texas Dept. of Insurance responsible for overseeing the redomestication application.

6. Share Purchase Agreement: The Share Purchase Agreement (Form A - Exhibit 1) states that the Schedules and Exhibits referenced in the Share Purchase Agreement are an integral part of the agreement; however, the Share Purchase Agreement filed with the Form A did not include the referenced Schedules and Exhibits.

Please provide a complete list of *all* Schedules and Exhibits referenced in the Share Purchase Agreement, along with a complete copy of *all* Schedules and Exhibits listed.

7. Pre-Closing Affiliated Agreements: Article 4.23 of the Share Purchase Agreement states that, except as set forth in Section 4.23 of the Disclosure Schedules, there are no agreements between the Company and any Affiliate that will continue after the Closing Date.
 - a) Please provide a list of all existing agreements between UNSIC and any affiliate.
 - b) In addition, please discuss whether UNSIC plans to file a Form D with OCI for the termination of these agreements, and the expected date this filing will be made (or alternatively, if this Form D filing has been made with OCI, please provide a copy of the filing).
8. Quota Share Reinsurance Agreement between UNSIC and Diamond State: The Form A states that, prior to closing, UNSIC and Diamond State will enter into a quota share reinsurance agreement whereby Diamond State will reinsure 100% of all liabilities of UNSIC relating to policies issued by UNSIC prior to closing, *including any renewals of the pre-closing policies which UNSIC is obligated by contract or applicable law to issue after the closing of the acquisition*.
 - a) Please provide a copy of the proposed Quota Share Reinsurance Agreement between UNSIC and Diamond State.
 - b) Please discuss the specific types of policies that UNSIC will be obligated to renew by contract or applicable law after closing, and explain why UNSIC is obligated to renew these policies.
 - c) In addition, please discuss whether UNSIC plans to file a copy of this agreement to OCI in a Form D filing, and the expected date this filing will be made (or alternatively, if this Form D filing has been made with OCI, please provide a copy of the filing).
9. Pre-Closing Dividend or Distribution: Article 10.03 of the Share Purchase Agreement states that the Seller will cause UNSIC to transfer assets, by dividend or distribution, to the Seller in amounts sufficient to reduce the remaining Statutory Capital to the amount set forth in Schedule 10.03(a).
 - a) Please discuss whether UNSIC plans to file an extraordinary dividend request to OCI for this planned dividend or distribution, and the expected date this request will be filed (or alternatively, if this request has been filed with OCI, please provide a copy of this request).
10. Post-Closing Affiliated Agreements: Please provide a list of all affiliated agreements in which UNSIC is expected to participate with any of the State National companies post-closing, along with copies of the proposed affiliated agreements.
11. Biographical Affidavits: The Form A filing did not include a biographical affidavit for SNIC director Lonnie Ledbetter. Please provide a biographical affidavit for Lonnie Ledbetter.
12. Opinion of Financial Advisor: Item 4 of the Form A stated that the purchase price was the result of arms' length negotiations between parties, and that Diamond State was represented by independent financial and legal advisors. Please provide a copy of any opinion letters issued by Diamond State's independent financial or legal advisors as to the fairness of the purchase price.

13. Pro Forma Financial Statements:

- a) Direct Business: The Pro Formas show that 100% of the direct business written will be in the Homeowners multi-peril ("HOMP") line, which UNSIC does not currently write (UNSIK currently writes a variety of P&C lines, but not HOMP). This appears to be inconsistent with other information provided in the Form A (which indicates that UNSIC's post-acquisition direct business will consist entirely of renewals that UNSIC is obligated to write). Please explain this discrepancy: If UNSIC does not currently write HOMP – why will its business post-acquisition be in this line?
- b) Assumed Business: The Pro Formas show that all assumed business will be in the Private Passenger Auto Physical Damage and Credit lines. Please discuss the source and nature of this business (i.e. – will this business consist entirely of business that will be transitioned to UNSIC pursuant to the Alliance Agreement between State National and Nephila, and specifically, what type of business will this be?).
- c) Ceded Business: The Pro Formas indicate that 100% of direct business written for 2017 – 2019 will be ceded. Please clarify – is this due to the 100% Quota Share Reinsurance Agreement with Diamond State, which will become effective post-closing?
- d) Territory: UNSIC currently writes almost entirely in PA, IL and Wisconsin. The Pro Formas indicate that UNSIC will write exclusively in CA, NJ and NY for 2017 - 2019. Please explain why UNSIC plans to write only in CA, NJ and NY for 2017 – 2019 (and not in PA, IL and WI where it is currently writing business).
- e) Pro Forma – Assumptions: The assumptions provided with the Pro Formas state: "[T]he nationwide pro forma presents financial results subsequent to the Reinsurance Pooling Agreement between State National Insurance Company and its affiliates, National Specialty Insurance Company and United Specialty Insurance Company."

The Form A does not indicate that UNSIC will participate in a reinsurance pooling agreement with its State National affiliates post-closing. Please explain why the assumptions state that the nationwide pro formas reflect a reinsurance pooling agreement that is not discussed anywhere else in the Form A.

Please mail all requested information to my attention at the address listed at the top of this letterhead (or alternatively, you can email scanned copies of the requested information to kristin.forsberg@wisconsin.gov). Please feel free to call me at (608) 266-9896 should you have any questions.

Sincerely,



Kristin L. Forsberg
Insurance Financial Examiner
Bureau of Financial Analysis and Examinations
(608) 266-9896
kristin.forsberg@wisconsin.gov