September 10, 2021

VIA ELECTRONIC MAIL

Shaunda Patterson-Strachan, Esquire
Faegre Drinker Biddle & Reath LLP
1500 K Street, NW, Suite 1100
Washington, DC 20005

Re: Amalgamated Casualty Insurance Company ("Amalgamated" or "Company")
Demutualization Application

Dear Ms. Patterson-Strachan:

Thank you for your letter of August 27, 2021, and our subsequent conversation concerning the issues raised in that letter. The purpose of this letter is to respond to the comments and inquiries included in your letter and provide D.C. DISB Commissioner Karima Woods ("Commissioner") with the record she needs to approve the Amalgamated proposed Demutualization Plan pursuant to D.C. Code § 31-901 et seq. (Capitalized terms used herein have the meaning ascribed to such terms in your letter or your earlier Interrogatories.)

Before specifically addressing the subsequent comments and inquiries detailed in Paragraphs A through G in your letter, the Company would like to address your over-arching question of whether Amalgamated's proposed Demutualization Plan will "prejudice the interests of [its] members." As we read it, your concerns are as follows:

- How does the Company's business plan in totality (i.e., increased investment in the business, business expansion, business growth, etc.) serve the interests of Amalgamated's current members?

- Is the Demutualization Plan (i.e., increased capitalization) consistent with the business plan and necessary at this time?

- Is the Demutualization Plan fair to Amalgamated's members from an economic and governance standpoint?

- What assurances are there that the members' interests will continue to be served once their voice in corporate governance is replaced by those of stockholders?

First of all, we should not lose sight of the fact that our members are our customers. Any business – sole proprietorship, mutual company, or Fortune 500 corporation – that does not serve its customers, and satisfy their needs, will not survive in the long-run. So, while much of the discussion to date has been focused on the legal rights of the members vis-à-vis the mutual company, we believe that most of our customers would place a much higher priority on the practical benefits they derive from doing business with Amalgamated, as well as the improvements they would envision and hope for as the Company evolves in the future.

In response to early feedback from the DISB, Amalgamated did an outreach initiative to a number of the Company's long-time D.C. policyholders to gauge their reactions to the Demutualization Plan. As expected, the feedback largely fell into two categories: (1) favorable (i.e., would like to invest in the offering or, mainly for those that were older and were less inclined to make a long-term stock investment, would like the opportunity to redeem their subscription rights and receive a cash payment), or (2) indifferent (i.e., were more concerned with their insurance coverage than with details of corporate structure and governance). Based on these and other conversations with our customers over the years, we believe that Amalgamated members are primarily interested in the following, the nature of which relate to the practical benefits they derive from doing business with Amalgamated and Amalgamated's ongoing ability to meet their day-to-day business needs:

- **Having an insurance company that continues to offer commercial auto insurance coverage to meet their business needs.** Amalgamated members have an interest in ensuring that the Company continues to offer them insurance coverage (i.e., continues to insure taxis and sedans in the locations in which the Company currently operates).

- **Having an insurance company that is independent and local.** Amalgamated members have an interest in keeping Amalgamated independent, not a subsidiary controlled by a larger organization, so that it can freely fulfill its commitment to continue offering insurance coverage to its current policyholders. Also, given that roughly 80% of Amalgamated's members are located in the D.C. Metro area (DC, MD, and VA), Amalgamated members have an interest in ensuring that the Company remains "local" and focused on continuing to serve the D.C. Metro community.

- **Having an insurance company that has stable prices.** Amalgamated members have an interest in ensuring that the Company has the capital support to weather the year-to-year volatility that is inherent in the property and casualty insurance business while keeping prices stable.

- **Having an insurance company that continues to improve its technology.** Amalgamated members have an interest in ensuring that the Company continues to invest in and adopt new technology in order to both better service its policyholders and also operate efficiently, which in turn allows the Company to continue to provide insurance coverage at competitive prices.

- **Having an insurance company with high-caliber employees.** Amalgamated members have an interest in ensuring that the Company has the ability to attract and retain high-quality employees to operate the Company and provide exceptional service to policyholders, including underwriting staff, customer services representatives, and claims adjusters.

- **Having an insurance company with a high A.M. Best financial strength rating.** Amalgamated members have an interest in ensuring that the Company has a high A.M. Best financial strength rating. The Company is currently rated B++, which is adequate in many areas of operation for existing policyholders. An upgrade of the Company's A.M. Best financial strength rating from B++ to A- would expand policyholders' ability to pursue business activities in certain jurisdictions that require insurance coverage from an A- insurance company (e.g., certain airports, hotels, amusement parks, etc.). Amalgamated members have an interest in ensuring that the Company maintain and, potentially, improve its A.M. Best financial strength rating.

For reasons that will be reiterated here, Amalgamated's Board of Trustees believes that these policyholder interests can best be served by a company that is well-capitalized, profitable and growing, with state-of-the art technology and an experienced and well-qualified staff. Toward that end, the Board spent the better part of 2020 developing a ten-year business plan (see Exhibit A). The ten-year business plan adopted by the Board contemplates:

- Gross premiums written of $100 million by 2031 (current level = $8 million over the last twelve months, down from a peak of $14 million in 2017);

- At least 4,000 agents offering Amalgamated policies (currently agents number 1,214, up from 30 when the business plan was adopted);

- A combined ratio of less than 100% beginning in 2025 (down from approximately 125% for the period 2018-2020, driven by a (a) lower and more stable loss ratio through an emphasis on new business growth in lower risk states and lower risk vehicle segments, and (b) lower expense ratio as the Company reaches scale through growth in premium writings and the strategic use of technology to achieve operational efficiencies;

- Significant investments in people and technology (Amalgamated hired several high-level personnel in 2021 including Richard Hutchinson, whose biography is outlined in detail in the business plan attached herein, as President and COO in January 2021, and recently contracted for a new comprehensive insurance technology system at an estimated ten-year cost of $8.2 million); and

- Stockholders' equity of approximately $90 million at the end of 2031 (consisting of approximately $40 million of equity as of June 30, 2021, plus approximately $17 million of net proceeds from the proposed demutualization offering, plus approximately $33 million in projected retained earnings from June 30, 2021 through December 31, 2031.

Our Board's view is that, while at the present time Amalgamated primarily serves the insurance needs of a narrow customer segment, and does so to the best of its abilities, to secure its long-term viability as an independent company, Amalgamated must make meaningful strategic investments, now and in the future, in order to continue to provide existing members with the products and services they desire at a competitive price. Our Board's view is that in order to support these meaningful strategic investments, the Company must grow and achieve scale. Continued focus on a narrow, and in recent years shrinking, customer segment will prolong the Company's sub-scale operations and will not serve the interests of our members over the long-term, and if they cease to be satisfied customers, they will obtain their insurance elsewhere and will therefore no longer be members.

The business plan approved by the Board provides the Company with a credible path to achieving growth and scale organically, retaining its independence and its strong presence in the D.C. Metro area. The business plan builds upon the Company's 83 years of operating in the commercial auto segment, while providing a large and attractive market for future growth. In addition, and of equal importance, the business plan brings to the Company critical senior personnel with deep industry experience, all of whom will be instrumental in executing the business plan prospectively. In particular, the business plan contemplated the hiring of Richard Hutchinson, who joined the Company as President and COO in January 2021 and who is currently relocating with his family from Traverse City, MI to the District of Columbia. As described in detail in the business plan, Mr. Hutchinson has a lengthy record of operational excellence and has been instrumental in leading the development of large and high-performing insurance businesses, both at Progressive and, most recently, Hagerty. Mr. Hutchinson was instrumental in developing the business plan, has been instrumental in leading the execution of the business plan in 2021, and will be critical to the Company's operations in the years to come. By providing a credible path to achieving growth and scale, the business plan in turn allows the Company to support meaningful strategic investments in its business, the benefit from such investments flowing to both existing members and, prospectively, future customers. The Board believes that the business plan and the investments contemplated in the business plan are wholly consistent with the interests of our members.

You have raised the question of whether we need capital. While we do acknowledge that our capital position is adequate to support our existing business today, our Board is of the view that (a) the above-described business plan is necessary for the long-term viability of the Company and is in the interests of our members, and (b) it would be ill-advised to undertake such a plan without a strong capital position and without the flexibility to raise additional capital in the future – partly because the planned increase in premium volume dictates more capital than currently exists at the Company, and partly because any ten-year projection, while directionally accurate, is based on current assumptions that likely will change over time. The Company could experience negative occurrences (higher than anticipated losses) or positive occurrences (higher premium growth), either or both of which could put pressure on the Company's capital position. By and large, mutual companies that convert from mutual to stock form by way of a subscription rights offering do so for one of three reasons:

1. **Loss of capital.** The mutual company has sustained losses, which have depleted capital, and the company must raise capital to restore its capital position.

2. **Business growth.** The mutual company has outgrown its capital base due to premium growth and raises capital to replace more costly and less dependable alternative capital sources (e.g., reinsurance).

3. **Business pivot.** The mutual company has developed a business plan that contemplates meaningful future growth and, concurrent with embarking on the business plan, raises capital to support both investments in the business as well as expected premium growth as the business plan is executed.

Amalgamated falls squarely into the third category. As mentioned, the business plan contemplates meaningful growth in gross premiums written ($100 million by 2031 vs. current level of $8 million over last twelve months). Amalgamated, which, for the reasons previously described, seeks to maintain and, potentially, improve its A.M. Best financial strength rating, believes that a ratio of gross written premium to statutory surplus of 1:1 is prudent. In the context of the business planning process, the Board evaluated the capital needs of Amalgamated, both now and in the future. The Board determined that there were only two things of which they were certain: (1) at the present time, Amalgamated has adequate capital to support its current business and (2) Amalgamated will need to augment its capital position in the future to support its growth. While "just in time" capital raising might be a theoretical ideal, the fact of the matter is that any capital raise will be either "too early" or "too late." Amalgamated has been in business for 83 years and has accumulated approximately $40 million in capital. We have been working on this transaction for over a year and are still several months away from completing the offering and raising the capital, assuming of course that the Commissioner's approval of the Demutualization Plan is forthcoming. Consequently, the Company does not believe – from the vantage point of a mutual company – that augmenting Amalgamated's capital structure is either "quick" or "easy." Based on its business plan, the Company believes that it will likely be approaching a ratio of gross written premium to statutory surplus of 1:1 within 24-48 months. As any long-term projection will undoubtedly be imprecise, the Board believes that it is prudent to prepare for any eventuality, either negative (higher than anticipated losses) or, as we are stiving for, positive (higher premium growth), either or both of which could put pressure on the Company's capital position. Consistent with the Board's belief that the nature of insurance companies is that they should be strong and inspire confidence, we believe the Demutualization Plan, and increased capitalization, are wholly consistent with the business plan. In addition, we believe that that the capital markets are receptive, at the present time, to issues of the type to be offered in this demutualization transaction, and that it is appropriate to move forward with the demutualization transaction now to better secure the future of the company.

We do acknowledge an apparent inconsistency between the above rationale and our statement that $2 million of the offering proceeds will be invested into the insurance company immediately, while the majority will be retained at the holding company level. This statement was based on our experience, and the experience of our advisors, that the holding company of a

financial institution should serve as a source of strength to its regulated subsidiary, and consequently that this was best accomplished by maintaining as much financial flexibility as possible. To be clear, we have no current intention to conduct any activities, or make any investments, that could not readily be undertaken by the insurance company itself. The Board is, for the most part, comprised of members of the D.C. business community and it is the Board's goal to build a thriving and enduring D.C. insurance business. To be clear, the business plan approved by the Board is one of "business building" and not "financial engineering", and the Board's intent is to utilize the proceeds from the demutualization offering to support both investments in the business as well as expected premium growth as the business plan is executed. So, while we would deem it prudent to retain some funds at the holding company level, we would have no objection to, as a condition of the Commissioner's approval of the Demutualization Plan, making a substantially larger injection of capital into the demutualized insurance company with proceeds of the demutualization offering, as it is wholly consistent with the business plan and our Board's long-term intent.

As it relates to whether the Demutualization Plan is fair to Amalgamated's members from an economic and governance standpoint, we believe the answer is "yes". One area that seems to be a source of concern, or at least focus, has been the inclusion of the redemption rights feature in the Demutualization Plan. To that end, we believe some context and background might be helpful. First and foremost, the decision to include this feature was not, in any way, representative of an attempt to "cash out" members. "Cashing out" has the connotation that you are trying to sever ties, which is not the intent. Pursuant to the Demutualization Plan, Amalgamated members will receive priority subscription rights in a manner consistent with D.C. Code § 31-901 et seq. To be clear, our Board welcomes, and hopes for, broad policyholder participation in the offering. The Board, however, made the decision to include the redemption feature in the Demutualization Plan and based it upon a framework used by Nodak Insurance Company, a North Dakota domiciled company, in their demutualization in 2017. The logic behind the Board's decision to include this feature was as follows. First, the Board believed that the priority subscription rights allocated to policyholders have actual economic value. To that end, the Board had an independent appraiser, Boenning & Scattergood ("Boenning"), to value the subscription rights. Boenning confirmed that they did indeed have economic value and, based on their original appraisal, their value equated to roughly $1,500 per policyholder. Second, the Board recognized that policyholder participation in demutualization offerings through the exercise of subscription rights has historically been low. In other words, past history would suggest that a meaningful number of priority subscription rights allocated to policyholders in demutualization offerings expire unexercised and the economic value of the subscription rights does not benefit actual policyholders. To be clear, this phenomenon is not unique to Amalgamated or Amalgamated's policyholders, and it is in no way a function of Amalgamated's Demutualization Plan. It is simply a practical reflection of the relationship between policyholders and mutual insurance companies. By and large mutual policyholders simply don't have an "ownership" mindset. Rather, they have a "consumer" mindset and are far more interested in good coverage, low prices, and good claims service.

With these things in mind, the Board included the redemption feature in the Demutualization Plan. The Board is of the belief that the redemption feature is favorable to policyholders and makes the Demutualization Plan fairer to its policyholders than the Demutualization Act requires. Once again, the inclusion of the redemption feature is not a reflection of any intent to "cash out" policyholders. Rather, it was included in the Demutualization Plan to ensure that the economic value of the subscription rights ended up in the hands of Amalgamated members, irrespective of whether members exercised their subscription rights. Furthermore, it ensures that all members benefit—not just those who elect to exercise their rights.

In addition, the Board had to make a decision about what to do for those policyholders that, for whatever reason, don't return their proxy materials indicating their preference regarding either exercising their subscription rights or redeeming them. As you know, the Board made the decision to, for these policyholders, "default" to the redemption option and pay them cash in an amount equal to the value of the subscription rights. As you pointed out in your initial interrogatories, it would theoretically have been possible to, instead of defaulting to the redemption and a cash payment, default to stock consideration and, for those policyholders that didn't return their proxy materials indicating their preference, deliver to them shares of stock in an amount equivalent in value to the value of their subscription rights (e.g., 150 shares instead of $1,500 of cash). This, admittedly, might have favorable optics and move away from the appearance of "cashing out" policyholders which, once again, is neither the intent of the Board nor in the spirit of the Board's decision to include the redemption feature. However, the Board decided that defaulting to the redemption and a cash payment made more practical sense. The value of the subscription rights distributed to policyholders creates taxable income. All policyholders will receive, based on the original appraisal, subscription rights with a value of roughly $1,500 and this $1,500 will be taxable income to them. The Board felt that, from a practical standpoint, for those policyholders that did not return their proxy materials indicating their preference, it made more sense to default to the redemption so that these members would have cash in an amount equal to their taxable income in order to efficiently settle their cash tax liability.

Finally, the last sentence of the second full paragraph on page 2 of your letter asserts "the ultimate business focus of the demutualized insurer will shift from policyholder interests to shareholder returns." We submit that this assumes a false choice; namely, that all stock insurance companies must prioritize ***either*** shareholder interests or policyholder interests—and that choosing one of these constituencies is detrimental to the other. We submit that the way to satisfy shareholders is to build a sustainable business focused on the customer—policyholders. It is not an either/or proposition. Each constituency is served if both are served. We suspect that hundreds of existing stock insurance companies would agree.

A. Response B. 3. Regarding Use of General Proxies

Amalgamated holds general proxies from 1,317 of the 1,589 members. We acknowledge the Commissioner's position and believe some context and background might be helpful as we collectively devise a path forward that is both practical and acceptable to the Commissioner.

Amalgamated recognizes that D.C. DISB has historically been wary of Amalgamated's use of proxies (referred to as the "General Proxies" in the Application). In response to this, Amalgamated requested that Stevens & Lee, P.C. ("Stevens & Lee") perform research on the policyholder meeting process at other mutual companies, which was summarized in a memo dated February 6, 2017 (See Exhibit B). As you know, Amalgamated's bylaws state that a majority of its policyholders must be present, either in person or by proxy, in order to establish a quorum at any regular or special meeting of policyholders.

> ***Section V:*** *A quorum at any meeting of the Policyholders shall consist of a majority of the members represented in person or by proxy. When a quorum is present at any meeting, a majority of the voting members thereat shall decide any question that may come before the meeting. In the absence of a quorum, those present may adjourn the meeting to a future date, but until a quorum is secured may transact no other business.*

As noted in the Stevens & Lee memo, most mutual companies have a significantly lower quorum requirement in their bylaws, ranging from a fixed number of policyholders (e.g., 5 policyholders) to a relatively low percentage of policyholders (e.g., 3% of policyholders). Stevens & Lee found one other company, referred to as "Small Mutual in Virginia" in the memo, that had a quorum requirement similar to that at Amalgamated (i.e., majority of policyholders).

As stated in our prior response, Amalgamated will be distributing proxy materials (referred to as the "Special Proxies" in the Application) to members and will be hiring a third-party proxy solicitation firm to contact members and solicit the Special Proxies. While we have not made a final determination, we believe it is likely that we will engage Georgeson, a subsidiary of ComputerShare, and a nationally-recognized proxy solicitation firm, to perform this function on our behalf. In sum, Amalgamated will provide its members complete information about the Demutualization Plan and will hire a proxy solicitation firm to contact members and solicit Special Proxies. It is our hope that the third-party proxy solicitation firm can facilitate a healthy response rate from members and that there will be no need for the use of General Proxies to meet the quorum requirements in our bylaws. However, we would submit that, beyond taking the actions described above, we do not have control over the number of Special Proxies that will actually be returned.

As stated in our application, Amalgamated has proposed to use the General Proxies, if necessary, solely for the purpose of establishing a quorum at the special meeting of policyholders to consider the Demutualization Plan. As stated in the Application, only the Special Proxies will count as voting members to consider the Demutualization Plan. We submit that Amalgamated's use of both the General Proxies, for the sole purpose of establishing a quorum, and the Special Proxies, as the voting members to consider the Demutualization Plan, is consistent with the Company's bylaws, which states that (a) "a quorum at any meeting of the Policyholders shall

consist of a majority of the members represented in person or by proxy" and (b) "a majority of the ***voting members*** thereat shall decide any question that may come before the meeting". We also believe that this interpretation of the Company's bylaws is consistent with Robert's Rules and, in addition, our corporate counsel has confirmed our interpretation.

To be clear, it is our hope that the third-party proxy solicitation firm can facilitate a healthy response rate from members and that there will be no need for the use of General Proxies to establish a quorum. However, as a practical matter and based upon our experience over the years, by and large our members are less interested in items related to governance and are more interested in their insurance coverage. In other words, we believe there is a reasonably high likelihood that many members will simply not return the Special Proxies and that, without the use of the General Proxies to establish a quorum, the Company will be unable to conduct business at the special meeting of the policyholders to consider the Demutualization Plan.

We concede that a literal reading of the proposed approach could lead to a theoretical scenario in which the general proxies are used to establish a quorum, and the Demutualization Plan is decided by only a handful of members. We would like to assure D.C. DISB that this is neither the intent, nor the expectation, of the Company. We understand D.C. DISB's desire, which we share, to have a representative number of voting members participate at the special meeting of policyholders to consider the Demutualization Plan. Georgeson believes it can, with substantial effort, solicit sufficient Special Proxies to establish a quorum. That is our goal. However, throughout the mutual industry, members are not conditioned to vote, and it would not serve anyone's interest if Georgeson fell a bit short because of this. Once again, our strong desire is not to use General Proxies to establish a quorum. However, if Georgeson does fall short, we expect to use our General Proxies to establish a quorum, but only the Special Proxies will count as voting members to consider the Demutualization Plan.

B. Response B. 5. Regarding Boenning Appraisal and Other Matters

Attached as Exhibit C is a chart showing the appraisals performed by Boenning and the requested information to the extent available.

We note your citation of the Saucon Mutual Insurance Company demutualization, in which Boenning acted as financial advisor, not as the appraiser. Based on our understanding, in that transaction a two-stage offering was conducted. First, policyholders received subscription rights to purchase all $3.25 million of stock offered, but the plan provided that if policyholders purchased 51% of the stock, the transaction would be abandoned. In the second stage of the offering, directors and management had the right to purchase all stock not acquired by policyholders. In essence, this was a scheme to insure management control. Alternatively, policyholders could elect to receive cash, policy credits and enhancements, and a refund of perpetual deposits valued at approximately $2.1 million. All policyholders chose this alternative. Immediately prior to the conversion, Saucon had statutory surplus of $16.5 million. Therefore, the potential distribution of cash and policyholder credits represented 12.7% of surplus. Management purchased all $3.25 million in stock. Net of distributions to policyholders and a newly formed foundation, management acquired Saucon at approximately 19% of book value.

As structured, the transaction was designed to ensure management control. Arguably, this transaction only paid lip service to the statutory scheme that gives policyholders the right to purchase the whole company. By contrast, Amalgamated would complete its conversion even if policyholders elected to purchase all the stock offered. We submit that Amalgamated's proposal is demonstrably more in keeping with the statutory objective of these types of demutualization statutes (D.C. and Pennsylvania laws are very similar) and is therefore superior to the Saucon plan, from the perspective of a policyholder.

You also note that Saucon's value used a discounted cash flow analysis and a "sum of the parts" analysis to establish the cash delivered to policyholders. Boenning has advised us that in their view this determination is not entirely accurate. The Company proposed $3.25 million in consideration for Saucon. Boenning states that the appraiser hired by the Pennsylvania Insurance Department provided a report (and subsequently a fairness opinion) that supported the "proposed purchase price" established by the Company for the transaction, not all of which went to policyholders. The methods utilized by the Department's appraiser valued the company at $2.4 to $3.2 million, i.e., below the consideration offered by the Company.

Amalgamated acknowledges that historically policyholder participation in subscription rights demutualizations is not high and, accordingly, Boenning made an assumption that 98% of policyholder subscription rights would redeem. This is not, in any way, a function of the Amalgamated Demutualization Plan. Rather, it is a reflection of the reality of the relationship between members and mutual companies; that mutual policyholders are more concerned with their insurance coverage than with details of corporate structure, governance, and the ability to exercise subscription rights. However, that does not mean that affording policyholders the right to purchase stock at 51.6% of pro forma book value is not a benefit to them. It clearly is a benefit; whether they choose to take advantage of it is the member's decision. Moreover, in recognition of the fact that policyholder participation is traditionally low and, not wanting Amalgamated policyholders to "lose" the value they are statutorily granted by letting their priority subscription rights go unexercised, Amalgamated voluntarily augmented the benefit available to policyholders by allowing them to redeem their subscription rights for cash, even those that fail to respond at all to proxy materials, which we believe will be the majority of members.

The ability to purchase stock at a discount to pro forma book value redounds to the benefit of all who elect to do so, including management. However, we note that management's right to purchase stock is subordinate to the rights of policyholders. Policyholders receive the first right to benefit—not management. Finally, we note that D.C. Demutualization Act permits management to acquire 85% of the stock; in the proposed transaction management expects to acquire approximately 35%, and this percentage will likely decline if, as expected, the updated appraisal assigns a higher value to Amalgamated.

We acknowledge that if management owns 35% of the resulting company it will have "effective" voting control of the holding company.

C. Response to Paragraph B. 7. Regarding Use of Black-Scholes Model

Under the D.C. Demutualization Act, policyholders have no claim to the surplus of a mutual insurance company in the event of demutualization. Their only statutory right is the receipt of subscription rights. Amalgamated has augmented policyholder rights by offering redemption of these subscription rights. Because Amalgamated is enhancing the benefit to policyholders beyond the statutory requirement, we believe that Amalgamated's plan clearly does not in any way prejudice the interests of policyholders from an economic standpoint. Only if policyholders had some inherent right to the surplus of Amalgamated could the proposed plan be deemed prejudicial to their interests from an economic standpoint. The D.C. Demutualization Act makes clear that they do not.

Once the Amalgamated board decided to augment the plan to benefit policyholders by offering redemption of these subscription rights, the remaining decision was how to accomplish this. The decision to offer to redeem the subscription rights and to use the Black-Scholes option pricing model to assign a value to these rights was based on four factors:

- First, and most importantly, an offer to redeem policyholder subscription rights reflects economic reality. The D.C. Demutualization Act grants members subscription rights. This is a property right created by statute for members and it makes sense to offer to buy that property right from members at its fair market value.
- Second, subscription rights are legally an option to buy stock. The Black-Scholes model is the universally accepted method for determining the fair market value of an option.
- Third, once the inputs into the Black-Scholes model are determined (and there is a limited range of options), the result is objective and not subject to challenge or manipulation. In this case, the two inputs that are subject to judgment are the duration of the option and the period over which volatility is calculated. In our prior submission, we explained why we believe the decisions Boenning made are reasonable.
- Fourth, there is precedent. North Dakota's law is a statutory precedent and the Nodak transaction represents a successful application of this statutory precedent.

Finally, your letter mentions that the book value of Amalgamated is higher than the proposed aggregate redemption value. Your letter further suggests that this is due in part to the failure of the company to declare dividends. First, we note that the overwhelming majority of mutual property and casualty insurance companies do not declare dividends and even the few that purport to do so are typically workers' compensation companies that are actually retroactively and selectively adjusting premium based upon favorable loss experience rather than truly declaring a dividend to all members. Therefore, Amalgamated's historical decisions not to declare dividends is squarely in the mainstream. But, more importantly, the suggestion that book value should be the touchstone for determining the proposed aggregate redemption value is based on an implicit assumption that members have an economic right to that surplus. They have no such right. Other than in the very unlikely event of a solvent liquidation of Amalgamated, in which it ceases to continue operations entirely, the sole economic right members have in the surplus of Amalgamated is the first right to buy stock through the exercise of subscription rights, resulting in pro rata ownership of that surplus.

D. Response B. 11.

For purposes of this response, we believe we did directly address the questions posed in paragraphs A and C of your Interrogatories. If you do not believe we did so, please advise us of the additional information you require and we will be happy to respond.

You state that our response constitutes unresponsive legal advocacy with which the Commissioner disagrees. We appreciate that and will try to be responsive to your direct question which, as we understand it, is how the $0.89 per subscription right value, and the implied aggregate value of subscription rights of approximately $2.4 million, compares, from a value standpoint, to other demutualization transactions of similar nature. Nodak is the only other company to have utilized the redemption feature that is contemplated in the Amalgamated Demutualization Plan. Nodak included this feature because it was required to do so under North Dakota's demutualization statute. North Dakota is the only state that statutorily requires the inclusion of a redemption rights feature. All other states that employ a subscription rights conversion statutory scheme, such as the one in D.C., do not require the inclusion of the redemption rights feature. The fundamental statutory principal in these subscription rights states is to confer upon policyholders priority subscription rights, but do not require that the converting company also offer to redeem unexercised policyholder subscription rights. Below is, we believe, a list of the ten most recent and representative property and casualty subscription rights demutualization transactions.

Issuer in Initial Public Offering	Converting Mutual (Primary Carrier)	Year	Structure of Conversion [1], [2]	State(s) of Domicile of Converting Mutual(s)	Subscription Rights Redemption Feature?
Positive Physicians Holdings, Inc.	Positive Physicians Insurance Exchange	2019	Full	PA	No
ICC Holdings, Inc.	Illinois Casualty Company	2017	Full	IL	No
NI Holdings, Inc.	Nodak Insurance Company	2017	MHC	ND	**Yes**
Penn Millers Holding Corp.	Penn Millers Insurance Company	2009	Full	PA	No
Eastern Insurance Holdings	Educators Mutual Insurance	2006	Full	PA	No
Fremont Michigan InsuraCorp	Fremont Insurance Company	2004	Full	MI	No
Mercer Insurance Group	Mercer Mutual Insurance Company	2003	Full	PA	No
Professionals Direct Inc.	Michigan Lawyers Mutual Insurance Company	2001	Full	MI	No
American Physicians Capital	American Physicians Assurance Corporation	2000	Full	MI	No
NCRIC Group Inc.	National Capital Reciprocal Insurance Company	1999	MHC	DC	No

[1] Full = full conversion (100% of ownership of converting mutual sold in offering).

[2] Partial = partial conversion (mutual holding company sold partial ownership in intermediate stock company, which in turn owned 100% of converted mutual company).

Of these, Nodak is the only company that included a subscription rights feature in its plan. We believe the reason this is the case is that most converting companies construct their plan to be consistent with the statutes prescribed in their state of domicile but go no further than what is statutorily required. In sum, other companies do not make voluntary policyholder enhancements to their plan, such as the redemption rights feature, because they are not required to do so. Amalgamated has proposed a plan that goes beyond what is required by D.C. law and we believe this should reflect favorably on the Amalgamated Demutualization Plan. So, while the Amalgamated plan is relatively unique versus prior demutualizations in states with similar statutory regimes, we believe it is unique in that, unlike other subscription rights demutualizations, it is more favorable from an economic standpoint to policyholders than is required by governing law.

Specific to your question, in the Nodak transaction, the policyholder subscription rights were valued at $0.67 per right and the aggregate value of these rights amounted to approximately $6.0 million, which was 4.3% of Nodak's pre-offering GAAP equity. A comparison of the Nodak transaction and the proposed Amalgamated plan is shown below. As you'll note, Amalgamated's policyholder subscription rights were valued at $0.89 per right and the aggregate value of these rights amounts to approximately $2.4 million, which is roughly 15.5% of Amalgamated's pre-offering GAAP equity.

		Nodak		Amalgamated
Pre-Offering Statutory Surplus [1]		141,344,000		38,745,416
Pre-Offering GAAP Equity [2]		155,073,000		42,491,247
Subscription Rights [3]		9,000,000		2,660,000
Eligible Members		27,915		1,589
Rights Per Member		322		1,674
Value Per Right	$	0.67	$	0.89
Value Per Member	$	215.74	$	1,489.87
Aggregate Value of Subscription Rights		**6,022,382**		**2,367,400**
As % of Pre-Offering Surplus		*4.3%*		*15.5%*
As % of Pre-Offering GAAP Equity		*3.9%*		*14.2%*

[1] For Nodak, period ending September 30, 2016. For Amalgamated, period ending June 30, 2021.
[2] For Nodak, period ending September 30, 2016. For Amalgamated, period ending June 30, 2021.
[3] Equal to the number of offering shares at the midpoint.

E. Response C. 16a.

We will provide the requested information in Exhibit B shortly.

F. Response C. 16b.

We will provide the requested information in Exhibit C shortly.

G. Response C. 16c.

We will provide the requested information in Exhibit D shortly.