

Exhibit B:
Stevens & Lee Memo

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MEMORANDUM CONFIDENTIAL – ATTORNEY-CLIENT PRIVILEGE

TO: Patrick J. Bracewell
Chairman and Chief Executive Officer
Amalgamated Casualty Insurance Company

FROM: Stevens & Lee
(Scott Spencer)

RE: Analysis of Proxy and Policyholder Meeting Process

DATE: February 6, 2017

This Memorandum describes the unique issues faced by mutual insurance companies in gaining policyholder participation in the annual meeting process and describes how state law and companies' bylaws have adapted to be able to effectively conduct business. It also compares the proxy and voting procedures of Amalgamated Casualty Insurance Company ("Amalgamated") to the proxy and voting procedures of most other mutual insurance companies.

Stevens & Lee's perspective on these issues comes from having served as corporate or transactional counsel to a large number of mutual insurance companies (est. over two dozen), ranging from small "county mutuals" to billion dollar companies, predominately in the mid-Atlantic but also in Illinois, North Dakota and other states. Our survey of company practices comes in part from our personal experience in this area and in part from additional research on companies not our clients.

Amalgamated's Proxy Procedures

Amalgamated's bylaws state that a majority of its policyholders constitutes a quorum at any meeting, including the company's annual meeting for the election of directors.

Notice of the time and place of Amalgamated's annual meeting is set forth in the company's bylaws. The bylaws also require that notice be given by publishing in a Washington DC newspaper.

Until 2013, Amalgamated would obtain a proxy from each policyholder generally at the inception of the policy. Those proxies did not have an expiration date, i.e., were perpetual, and would be voted at the annual meeting. Amalgamated did not go through an annual or other periodic solicitation of proxies. The proxies were revocable by the members.

In 2013, Amalgamated altered this process at the behest of its primary regulator -- the Department of Insurance, Securities and Banking of the District of Columbia ("DISB").

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Amalgamated agreed to re-solicit a proxy from each member every three years. It also agreed to inform each policyholder annually of their right to vote and to revoke the old proxy. At that same time Amalgamated instituted internal guidelines governing proxy solicitation by its agents or staff, to make clear that the policyholder's right to vote is separate from the underwriting process.

As discussed below, it is extremely rare for a mutual insurance company to have a majority quorum requirement. Most mutuals have *de minimis* quorum requirements. As a result of its quorum requirement, Amalgamated now engages in an outreach process to its policyholders that is very robust and far exceeds its peers.

Membership in a Mutual Insurance Company – General Discussion

In general, the policyholders of a mutual insurance company are the company's "members" and have the right to elect the company's board of directors. The policyholders also generally have voting rights with respect to fundamental transactions involving the mutual, such as a merger or plan of conversion from mutual to stock form.

Some state laws specifically grant the policyholders the right to receive the net assets of a mutual that voluntarily liquidates while solvent. Other laws treat the net assets as belonging to the state under such circumstances. Many states have no statutory provisions that clearly direct where such net assets are to go. We are not aware of any actual liquidations of a solvent mutual insurer so this question is essentially an academic one.

Based upon our experience and our research, mutual policyholders do not have a proprietary attitude regarding their insurance company. In other words, they do not behave as owners or investors in the company. Instead, policyholders have a consumer mindset and are interested in good coverage, low prices, and prompt and beneficial claims service. As a result, policyholders typically show no interest in the annual meeting process and do not take part in voting for their directors. Therefore, the governance process for mutual insurance companies must be adapted to allow the company to function without the active involvement of a majority of policyholders.

Survey of Notice and Proxy Procedures of Other Mutual Insurance Companies

We performed a survey of fourteen mutual insurance companies. The majority are known to us personally either as clients, transactional counterparties, or companies within our market footprint. Others are national brand-name companies.

We obtained the documents of ten (10) small and mid-size mutuals in the mid-Atlantic, domiciled in four (4) different states. In cases where their documents came to us in confidence, we do not specifically name the company. Where their documents were publicly available or were not given in confidence, we identify the company by name. A few of these companies have been merged or converted from mutual to stock form.

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1. Old Guard Mutual (PA)
2. New Castle Mutual (DE)
3. Mid-Size Mutual in Central PA
4. Small County Mutual Northeast PA
5. Small County Mutual Central PA
6. Mid-Size New Jersey Mutual
7. Rockingham Mutual (VA)
8. Penn Mutual Life (PA)
9. Small Mutual in Virginia
10. Harleysville Mutual (PA)

We also obtained documents of four (4) other large mutuals from publicly available sources:

11. Nationwide (IL)
12. State Farm (OH)
13. Mass Mutual (MASS)
14. Nodak Mutual (ND)

Except for the small Virginia mutual (#9), notice of the companies' annual meetings is provided either by publishing the specific time and place on the policy documents or by advertising the time and place in a local newspaper near the company headquarters, or both. Neither the companies' governing documents nor the relevant state law requires that notice of the meeting be mailed to the policyholders. Virginia mutual #9 requires notice of the annual meeting be mailed to the policyholders.

Except for the small Virginia mutual (#9), none of the companies requires a majority of the policyholders be present to constitute a quorum. Three of the companies are permitted to conduct their annual meeting if only a single policyholder is present. Four of the companies have a quorum of five (5) or seven (7) policyholders. Nationwide requires 20, Harleysville 25, Nodak 50, and Penn Mutual 250. Rockingham's requirement is 3% of policyholders. State Farm is unknown to us; however the company's website states that policyholders must contact the company for a proxy. This process clearly means that State Farm does not engage in a proxy solicitation process and therefore has a *de minimis* quorum requirement.

Only the small Virginia mutual (#9) has a majority quorum requirement like Amalgamated. We do not have information to discern how that company deals with the requirement. It is possible that management solicits proxies periodically; we think it is more likely that management holds perpetual proxies.

Survey of State Law

We also performed a survey of state mutual insurance law in the District of Columbia and nearby mid-Atlantic States. We surveyed (from north to south): New Jersey; Pennsylvania; Delaware; Maryland; the District of Columbia; Virginia; North Carolina; and South Carolina.

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We believe those state law are instructive both because they are close to DC and because many of those states have long and substantial histories with mutual insurance companies.

First, we note that the District of Columbia, Pennsylvania, Maryland, and Delaware do not have specific provisions in their insurance laws that deal with the governance of mutual insurance companies.

Two states, South Carolina and Virginia, have specific statutory quorum requirements for mutual insurers.

Title 38 of the South Carolina Code of Laws:

SECTION 38-19-60. Quorum for conduct of business at annual meeting; form and approval of voting proxies.

At any annual meeting of a domestic mutual insurer all business including the election of directors must be conducted pursuant to majority vote of those members present and voting either in person or by proxy of nonpresent members as provided in Section 38-19-50. No other quorum requirements may limit the conduct of this business.

(emphasis added)

Title 38.2 of the Virginia Code Annotated:

VA Code Ann. § 38.2-2509 Directors; terms; annual meetings; voting; executive committee

* * * * A quorum shall consist of (i) ten members or (ii) the number of members specified by either the certificate or articles of incorporation or the bylaws, whichever number is larger. * * * *

We also note that North Dakota, which has a strong mutual insurance heritage, has specific statutory provisions on the governance of county mutual insurance companies. That statute provides that 20 members constitute a quorum. ND Century Code §26.1-13.11.

The statutes of North Carolina, South Carolina, and Virginia permit or require notice of the annual meeting to be printed on the policy documents.

These statutes give important recognition to the fact that mutual insurance companies need flexible arrangements in order to ensure that business can be conducted at their annual meetings.

NAIC Model Regulation on Stock Insurance Company Proxies

The NAIC has promulgated a model regulation governing the proxy process for certain stock insurance companies. See Model 490-10, available on the NAIC's website.

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These rules apply only to stock insurance companies. The NAIC has adopted no model laws or rules concerning the proxy process for mutual insurance companies.

In substantial effect, the NAIC model regulation mimics the SEC's rules for proxy solicitation in publicly-traded corporations. The model regulation only applies to stock insurers with at least 300 stockholders (consistent with SEC rules for public company status) and do not apply to any insurer subject to SEC rules.

DC Has Adopted a Variation of the NAIC Model Regulation

DC has implemented a variant of the NAIC model regulation. See DC Administrative Code, Title 26-A. As with the model regulation, the DC regulation applies only to stock insurance companies. As a matter of interest, the DC provisions apply to any stock insurer with at least 100 stockholders, and provide for the limitation of the duration of a proxy.

DC Administrative Code §26-A1504.6. No proxy shall confer authority to do any of the following:

(a) To vote for the election of any person to any office for which a bona fide nominee is not named in the proxy statement; or

(b) To vote at any annual meeting other than the next annual meeting (or any adjournment thereof) to be held after the date on which the proxy statement and form of proxy are first sent or given to stockholders.

(emphasis added)

Again, we emphasize that these requirements apply only to stock insurance companies. Due to the substantial differences between being an investor in a stock company and a policyholder in a mutual insurer, no inference should be drawn that these rules are appropriate for mutual companies.

DC corporate law permits perpetual proxies

Since DC's insurance laws do not have specific requirements governing the proxy process for mutual companies, we looked at the corporate laws of the District. The corporate law specifically permits proxies of infinite duration if the duration is stated on the proxy. See DC Code § 29-305.22(b). As Amalgamated is incorporated in the District, this provision applies to it.

Conclusions

- Mutual insurance companies must contend with member apathy towards the voting process and therefore have designed a system that differs markedly from the shareholder voting system in for-profit companies that most people are familiar with.

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- Mutual insurers appear almost uniformly to have *de minimis* quorum requirements. As a result, mutual insurers do not actively solicit proxies from their policyholders. Although policyholders are not discouraged from attending the annual meeting, the companies can elect directors and conduct business whether or not policyholders attend the meeting or send in proxies.
- Mutual companies' annual meetings are held with very few policyholders present, either in person or by proxy. Anecdotal evidence is that company executives and directors (who are policyholders themselves) are often the only persons at the meeting. Sometimes a few local policyholders may attend.
- Amalgamated's bylaws are unusual. It is extremely rare for a mutual insurance company to have a majority quorum requirement. A periodic proxy solicitation process is far beyond the efforts made by mutual companies, from the smallest to the very largest, to round up policyholder participation in the annual election of directors.
- Amalgamated's pre-2013 process of perpetual proxies is lawful. It also is a reasonable response to the problem of voter apathy. In effect, that process put Amalgamated in the same position as if it had a *de minimis* quorum requirement.
- Amalgamated's current policyholder outreach and proxy solicitation process is a commendable effort towards policyholder participation. We have not identified any other company that goes to those lengths.

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