

BEFORE THE INSURANCE COMMISSIONER AND THE ATTORNEY GENERAL
OF THE STATE OF IOWA

In the matter of the application of)	
AMERICAN ENTERPRISE)	
MUTUAL HOLDING COMPANY)	FINDINGS OF FACT,
and LINCOLN MUTUAL LIFE)	CONCLUSIONS OF LAW
AND CASUALTY INSURANCE)	AND ORDER
COMPANY for approval of an)	(Iowa Code chapters 521 and 521A)
Agreement and Plan of)	
Reorganization)	

I. INTRODUCTION

American Enterprise Mutual Holding Company (“American Enterprise”) and Lincoln Mutual Life and Casualty Insurance Company (“Lincoln Mutual”)(collectively, the “Applicants”) jointly filed an Agreement and Plan of Reorganization (“Agreement”) pursuant to Iowa Code section 521A.14(2) (2013) and filed a Limited Application in accordance with the requirements of the Iowa Insurance Division’s administrative rules (“Limited Application”). In addition, American Enterprise has filed an application under Iowa Code chapter 521 (2013) (“Chapter 521 Application”) seeking approval of the Agreement and proposed reorganization (the “Chapter 521 Application” and the “Limited Application” jointly referred to as “Applications”).

American Enterprise is an Iowa mutual insurance holding company, which through its wholly owned subsidiary AE Group, owns and controls American Republic, Medico Insurance Company (“Medico”) and two other stock life insurance companies. American Enterprise conducts a general life and health insurance business through American Republic, Medico and its other insurance company subsidiaries (collectively, the “AE Insurance Companies”). Lincoln Mutual is a North Dakota mutual life insurance company and holds a certificate of authority to conduct business in Iowa.

American Enterprise proposes to acquire control of Lincoln Mutual through a mutual insurance holding company reorganization of Lincoln Mutual. Following the reorganization, all of Lincoln Mutual’s common stock will be issued to American Enterprise and American Enterprise will contribute the Lincoln Mutual common stock to American Enterprise Group, Inc. (“AE Group”). AE Group is the intermediate stock holding company of American Enterprise. Following issuance of the Lincoln Mutual

stock to AE Group, Lincoln Mutual will continue its separate corporate existence as a North Dakota stock life insurance company while operating as an indirect subsidiary of American Enterprise.

Pursuant to Iowa Code section 521A.3(4)(b) (2013), and at Applicants' request, a public hearing was held on Wednesday, July 10, 2013 at the Iowa Insurance Division's offices to determine whether the Agreement and proposed reorganization comply with the standards for approval set forth in Iowa Code section 521A.14(2) (2013). In addition, the Chapter 521 Application requires approval by a commission comprised of the Iowa Insurance Commissioner ("Commissioner") and the Attorney General of the State of Iowa (jointly, the "Commission") as established under Iowa Code section 521.5 (2013).

II. JURISDICTION

The Commissioner has jurisdiction over the Agreement and the Limited Application under Iowa Code section 521A.14(2) (2013). The Commission has jurisdiction over the Agreement and the Chapter 521 Application under Iowa Code sections 521.3, 521.4, 521.5 and 521.8 (2013).

III. EVIDENCE PRESENTED

In support of the Applications, Applicants filed the Agreement, submitted the written affidavit and testimony of Timothy J. Hall, Senior Vice President of American Enterprise, and written affidavits of Lawrence J. Zich, Chief Executive Officer of Lincoln. All testified to the purpose and in support of the proposed reorganization. Mr. Hall testified that Lincoln Mutual currently receives all of its administrative management and staffing services from Noridian Mutual Insurance Company ("Noridian"). *Trans.* at 11. As a result of Noridian terminating the administrative management and staffing services agreement, Lincoln Mutual was forced to find a replacement management and services provider. *Id.* at 12. In the spring of 2012, American Enterprise was approached by the management of Lincoln Mutual to determine whether it would have an interest in pursuing a transaction whereby Lincoln Mutual would become part of the American Enterprise organization and access the management and administrative services and support the continuation of Lincoln Mutual's business operations. Hall June 28, 2013 Affidavit, p. 2, ¶ 5. The American Enterprise Board approved the transaction on March 4, 2013 and the Lincoln Mutual Board approved it on January 24, 2013. *Trans.* at 12.

Following a public hearing, the North Dakota Commissioner of Insurance approved the Agreement on April 29, 2013. Zich June 25, 2013 Affidavit, p. 7, ¶ 25. On July 15, 2013, the Lincoln Mutual policyholder's approved the Agreement. See Zich July 15, 2013 Affidavit, p. 2, ¶ 6.

The reorganization will preserve Lincoln Mutual's administrative management and staffing services. *Trans.* at 11. Furthermore, Lincoln Mutual's reorganization into American Enterprise will both preserve the benefits of a mutual insurance company for its members and gain the advantages in terms of economies of scale and access to financial resources that are available within a mutual insurance holding company system. Zich June 25, 2013 Affidavit, p. 1, ¶ 1. First, the mutual membership interests of Lincoln Mutual will be merged into American Enterprise and become membership interests in American Enterprise. *Trans.* at 13. Lincoln Mutual policyholders will become members of American Enterprise with the same rights as members of American Enterprise. *Id.* Lincoln Mutual will amend its articles of incorporation to convert from a mutual insurance company into a stock corporation and change its name to Lincoln Republic Insurance Company. *Id.* All of Lincoln Mutual's newly authorized common stock will be issued to American Enterprise, who will contribute that common stock to American Enterprise Group ("AE Group"), American Enterprise's intermediate holding company. *Id.* Once the transaction is complete, Lincoln Mutual will continue its separate corporate existence as an indirect-owned subsidiary of American Enterprise. *Id.*

At the close of the hearing, the Commissioner granted Applicants' request to hold the record open for the submission of verification that the Lincoln Mutual policyholders approved the Agreement at a special meeting held on July 15, 2013. The hearing was adjourned and the administrative record was held open for this limited purpose. The administrative record formally closed upon receipt of verification of the policyholder vote approving the Agreement on July 15, 2013.

All evidence was admitted without objection and is part of the record considered by the Commissioner in issuing the following findings, conclusions, and order. No one appeared at the hearing to oppose Applicant's request or otherwise offer evidence to contradict or question Applicant's submission of evidence.

IV. COMBINED FINDINGS OF FACT

A. **Approval of the Agreement pursuant to the Limited Application under Iowa Code section 521A.14(2) (2013).**

Iowa Code section 521A.14(2)(c) (2013) authorizes a foreign mutual insurance company to reorganize into an Iowa mutual insurance holding company organized under Iowa Code section 521A.14(1) (2013) upon compliance with the law applicable to the foreign mutual insurance company in its state of domicile and upon approval of the Commissioner. Mr. Hall testified that American Enterprise is an Iowa mutual insurance holding company that was organized in 1999 in connection with the mutual insurance holding company reorganization of American Republic. *Trans.* at 10. Lincoln Mutual is a North Dakota mutual insurance company. Zich June 25, 2013 Affidavit, p. 2, ¶ 4.

The Agreement requires approval of the North Dakota Commissioner of Insurance (“North Dakota Commissioner”), the members of Lincoln Mutual, and the Commission. *Trans.* at 12., Zich June 25, 2013 Affidavit, p. 7, ¶ 24. Lincoln Mutual has complied with the provisions of North Dakota law applicable to a mutual insurance holding company reorganization. On, April 1, 2013, the North Dakota Commissioner held a public hearing on the reorganization. Zich June 25, 2013 Affidavit, p. 7, ¶ 25. The reorganization was approved by the North Dakota Commissioner on April 29, 2013. *Id.* Lincoln Mutual members voted and approved the Agreement during a special meeting held on July 15, 2013. Zich July 15, 2013 Affidavit, p. 2, ¶ 6.

The standards for approval of the Agreement by the Commissioner are contained in Iowa Code section 521A.14(2) (2013) and require a showing that: (i) the interests of the policyholders are properly protected; and (ii) the plan of reorganization is fair and equitable to the policyholders. Applying the standards to the evidence presented in the record, and when viewed as a whole, the Commissioner finds the following facts:

1. **The Interests of the Policyholders are Properly Protected Under the Agreement.**

The Applicants are required to demonstrate to the Commissioner that the interests of the policyholders will be properly protected under the Agreement. Iowa Code section 521A.14(2) (2013).

Combining with American Enterprise through the proposed reorganization will enable Lincoln Mutual to continue its business operations and serve the needs of the Lincoln Mutual policyholders without interruption. *See* Zich June 25, 2013 Affidavit, p. 5, ¶ 16. There will be no interruption in Lincoln Mutual's existence as a North Dakota insurer. *Id.* at p. 6, ¶ 21. Initially following the reorganization, Lincoln Mutual will receive some services from American Enterprise and certain management and administrative services from Noridian under a transitional services agreement. *Id.* at p. 6, ¶ 22. After a transition period, American Enterprise will provide the Noridian-supplied transition services to Lincoln Mutual. *Id.* Mr. Hall testified that the membership interests of Lincoln Mutual will become membership interests in American Enterprise. *Trans.* at 14. Lincoln Mutual policyholders will be entitled to all the rights of policyholders of American Enterprise. *Id.* These rights include voting for election of directors of the American Enterprise Board. *Id.* All policies issued by Lincoln Mutual will remain the contractual obligation of Lincoln Mutual and there will be no change in benefit value or change in policy terms. *Id.* There will be no diminution in the financial condition of Lincoln Mutual nor in Lincoln Mutual's ability to pay claims. *Id.* at 14-15. Lincoln Mutual's practice for determining policy dividends will remain unchanged after the reorganization. *Id.* at 15.

Under the Agreement, Lincoln Mutual will convert into a North Dakota stock life insurance company as part of the proposed reorganization; however, it will remain subject to regulation by the North Dakota Commissioner in accordance with applicable provisions in North Dakota law. Zich June 25, 2013 Affidavit, p. 6, ¶¶ 20-21.

Mr. Hall also testified with respect to the manner in which the interests of the policyholders of the AE Companies will be protected under the Agreement. There will be no change in the membership interests of American Enterprise policyholders. *Trans.* at 15. All insurance policies issued by the American Enterprise companies will continue as contractual obligations of those companies with no change to the terms of such policy. *Id.* There will be no diminution in the financial condition of any American Enterprise company or in its ability to pay the claims of policyholders. *Id.* The same dividend payment practice for the AE Insurance Companies will continue post merger. *Id.*

Nothing in the record supports a finding that the proposed reorganization is adverse to the Lincoln Mutual policyholders or to the policyholders of the AE Insurance Companies. The Commissioner finds that these interests will be properly protected and unimpaired following the proposed reorganization.

2. The Agreement is Fair and Equitable to the Policyholders.

The Applicants are required to demonstrate to the Commissioner that the Agreement is fair and equitable to the policyholders.

As noted above, the proposed reorganization: (i) substitutes the membership interests in Lincoln Mutual for membership interests in American Enterprise and thus continues the mutual membership rights of the Lincoln Mutual policyholders as members of American Enterprise; (ii) will not result in any change in the terms of the insurance policies issued by Lincoln Mutual, as such policies will remain contractual obligations of Lincoln Mutual as an indirect subsidiary of American Enterprise; (iii) will not diminish the financial condition of Lincoln Mutual, nor adversely affect its ability to pay the claims of its policyholders; and (iv) continues Lincoln Mutual's historical dividend payment practices.

Mr. Hall testified that both the boards of Lincoln Mutual and American Enterprise hired independent actuaries to review the fairness of the transaction from the perspective of the companies respective policyholders. *Trans.* at 16. The actuarial opinions concluded that the reorganization would be fair to the policyholders of Lincoln Mutual and American Enterprise. *Id.*

Upon becoming members of American Enterprise, the Lincoln Mutual policyholders will become members of American Enterprise and be entitled to all the rights and privileges of a member of American Enterprise. Hall June 28, 2013 Affidavit, p. 3, ¶ 11. This includes the right to vote for directors of American Enterprise and receive consideration in the event American Enterprise were ever to demutualize. *Id.* Future Lincoln Mutual policyholders will automatically become members of American Enterprise. *Id.* In the event of a Lincoln Mutual insolvency following the reorganization, the assets of American Enterprise will be available to satisfy the policy obligations of Lincoln Mutual. *Id.* In the event of accumulation of earnings in excess of funds needed in the operation of American Enterprise, American Enterprise will inure the excess funds as an exclusive benefit of members of American Enterprise, including member policyholders of Lincoln Mutual. *Id.*

Nothing in the record supports a finding contrary to those noted above and the Commissioner accordingly finds that the proposed reorganization is fair and equitable to the Lincoln policyholders and to the policyholders of the AE Insurance Companies.

B. Approval of the Agreement pursuant to the Chapter 521 Application under Iowa Code chapter 521 (2013).

The standards for approval of the Agreement under Iowa Code chapter 521 (2013) require the Applicant to demonstrate that the interests of the policyholders will be properly protected under the Agreement and that no reasonable objection to the proposed reorganization exists. The Commission concludes that the findings of fact relevant to the Limited Application as set forth above are also directly relevant to a determination of whether the standards for approval under Iowa Code chapter 521 (2013) have been satisfied. Accordingly, such findings have been considered by the Commission and established as findings of fact relevant to the Chapter 521 Application. Nothing in the record supports a finding that the proposed reorganization is adverse to the interests of the Lincoln policyholders or the policyholders of the AE Insurance Companies. The Commission thus finds that the Agreement properly protects the interests of the policyholders and that no reasonable objection to the proposed reorganization exists.

V. COMBINED CONCLUSIONS OF LAW

The legislature has vested discretion in the Commissioner and the Commission to not only to hold hearings and make factual findings, but also to interpret and apply the law. Iowa Code section 521A.14(2) (2013) permits the Commissioner to approve an application for reorganization if, after a public hearing, the applicant meets the standards listed in that section. Iowa Code sections 521.3 and 521.8 permit the Commission to approve a reorganization if the Commission determines that the standards listed in Section 521.8 have been satisfied by the applicant.

The Commissioner and the Commission have carefully reviewed all of the admitted evidence. The Commissioner concludes, based on substantial evidence in the record, that American Enterprise and Lincoln Mutual have demonstrated under Iowa Code section 521A.14(2) (2013) that the interests of the policyholders are properly protected under the Agreement and the Agreement is fair and equitable to the policyholders. The Commission concludes, based on substantial evidence in the record, that American Enterprise has demonstrated under Iowa Code section 521.8 (2013) that the interests of the policyholders are properly protected by the Agreement and no reasonable objection to the proposed reorganization exists.

The proposed reorganization of Lincoln Mutual into American Enterprise should be approved.

COMBINED ORDER

IT IS THEREFORE ORDERED THAT:

The Limited Application filed by American Enterprise and Lincoln Mutual for approval of the Agreement is hereby **APPROVED**.

The Chapter 521 Application filed by American Enterprise for approval of the Agreement is hereby **APPROVED**.

This Order shall be considered final agency action for purposes of Iowa Code chapter 17A (2013). Any action challenging this Order shall comply with the requirements of Iowa Code chapter 17A (2013).

Any application for rehearing shall comply with the requirements of Iowa Code section 17A.16 (2013).

DATED this 29th day of July, 2013.

NICK GERHART
Iowa Insurance Commissioner

THOMAS J. MILLER
Iowa Attorney General

_____/s/_____
By: CRAIG A. GOETTSCH
Assistant Iowa Insurance Commissioner

_____/s/_____
By: JEANIE KUNKLE VAUDT
Assistant Attorney General

Copies to:
Mark C. Dickinson
Nyemaster Goode, PC
700 Walnut Street, Suite 1600
Des Moines, IA 50309-3899

Daniel J. McInerney, Jr.
Leonard, Street and Deinard, P.A.
150 South Fifth Street, Suite 2300
Minneapolis, MN 55402