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October 13, 2006

Mr. Tim VandeHey  
Insurance Examiner Supervisor  
Financial Analysis and Examination Bureau  
State of Wisconsin  
Office of the Commissioner of Insurance  
GEF 3, 2<sup>nd</sup> Floor  
125 South Webster Street  
Madison, WI 53702

**SUBJECT: CUNA Mutual Insurance Society  
Application for Certificate of Authority**

Dear Mr. VandeHey:

On behalf of CUNA Mutual Insurance Society ("CUNA Mutual" or "CMIS"), we are seeking approval from the Office of Commissioner of Insurance ("OCI") both to change CUNA Mutual's domicile from Wisconsin to Iowa pursuant to sec. 611.223(2), Wis. Stats., and to become a foreign insurer in the state of Wisconsin under ch. 618, Wis. Stats.

#### **A. Change in Domicile**

The following information is being provided to you to assist OCI in its review of CUNA Mutual's request for redomestication to Iowa from Wisconsin. This information corresponds to what we understand that OCI wishes to consider in its review of this request. Please let us know if you require additional information.

1. A discussion of CUNA Mutual's merger plans.

#### Rationale for merger:

Since the beginning of their affiliation over 15 years ago, CUNA Mutual and CUNA Mutual Life Insurance Company ("CUNA Mutual Life" or "CMLIC") have anticipated a merger, and current consideration of a merger is a natural progression of the companies' longstanding permanent affiliation. It cannot be emphasized enough that no formal decision to merge has occurred. Special committees of both the CUNA Mutual and CUNA Mutual Life boards are presently examining the idea of a merger and how it would be structured if deemed appropriate. Following are some of the reasons in support of a merger:

- Additional economies, synergies and business planning advantages could be attained, including more complete management, functional and financial integration.
- A merger would facilitate solutions to corporate identity issues – reducing or eliminating confusion among policyholders, employees, regulators, rating agencies and capital markets.
- Existing integration that has occurred under the permanent affiliation would make the merger process less expensive, less time-consuming and less distracting than would have been the case in its absence.

Proposed Board steps and timeline relative to merger consideration:

**A. September 2006**

- Special committees are formed and chairs of the special committees are appointed.
- Special committees retain legal, actuarial and financial advisors.

**B. October - November 2006**

- The special committees (and their advisors) meet from time to time to consider the terms of a possible merger agreement and ultimately decide to recommend approval or disapproval of the merger to the full Board.
- Each special committee will have full and equal access to management and information.

**C. December 2006**

- Special committees make recommendations to full Boards as to whether to approve or disapprove a merger agreement.
- If CMIS Special Committee recommendation on merger is favorable, CMIS Board authorizes CMIS policyholder meeting to vote on (i) Articles changes for CMIS (as part of redomestication to Iowa) and (ii) special committee recommendation regarding merger; CMIS Board defers final consideration of merger proposal to February 2007 Board meeting.
- CMLIC board defers final consideration of merger proposal to February 2007 Board meeting.
- Information statement re. redomestication and merger sent to CMIS policyholders.

**D. January 2007**

- CMIS policyholder meeting to vote on (i) redomestication and related Articles amendments and (ii) recommendation by CMIS special Committee regarding merger proposal.

**E. February 2007**

- February 1: Redomestication of CMIS and other Wisconsin insurers completed.
- CMIS and CMLIC Boards (with appropriate Special Committee members recused from each Board) consider and take final action on merger proposal.

**F. April - December 2007: Implementation**

- Submit regulatory filings related to merger.
- Contact other states (as required and/or warranted) and submit any other required filings, including form filings and agent appointments.
- Hart-Scott-Rodino filings.
- Obtain no-action letters from Securities and Exchange Commission and obtain IRS rulings (or opinions of counsel).
- Notice to and meeting of CMLIC policyholders (April).
- Regulatory hearings and approvals.

**G. January 1, 2008 - proposed effective date of merger.**

2. A discussion of CUNA Mutual's business purposes for redomesticating. That is, what advantages does CUNA Mutual see to an Iowa domicile that are or may be relevant to the company's future business plans?

CUNA Mutual Group has substantial business operations in Wisconsin. Through permanent affiliate CUNA Mutual Life, CUNA Mutual Group also has substantial business operations in Iowa. These operations are closely integrated after more than 15 years of permanent affiliation and would become even more integrated as a result of a merger of the two companies. The laws of both Iowa and Wisconsin offer strong consumer protections and at the same time foster strong and competitive insurers. In addition, both states' regulatory agencies have long histories of balanced and knowledgeable regulation, so CUNA Mutual's choice of domicile is not an easy one. In some areas, however, CUNA Mutual believes there are advantages to Iowa law that militate in favor of an Iowa domicile.

The first area involves mutual holding company (MHC) formation. Both Wisconsin and Iowa laws on MHC formation are relatively straightforward. However, Iowa MHC law has been tested on multiple occasions. We are aware of at least four Iowa insurance corporations, including giant insurer Principal Mutual Life Insurance Company and the large insurer American Mutual Life, which created mutual holding companies. We are not aware of any Wisconsin life insurer that has formed an MHC. In today's competitive environment, many mutual life insurers have taken the step of forming an MHC to preserve their mutual status while at the same time secure access to additional capital to preserve financial strength, facilitate acquisitions or pursue other important business initiatives. While CUNA Mutual has no plans to form an MHC following any

merger with CUNA Mutual Life, if the business requirements of its continually evolving marketplace ever dictate that such a direction is prudent for the company and its policyholders, it wants to be positioned to move quickly.

The second area involves potential demutualization. Wisconsin's demutualization law is both archaic (written in a way that is frankly difficult to understand in parts) and untested. To this second point, to our knowledge, no Wisconsin mutual insurance company has ever gone public after demutualizing, and we know of only one insurer (significantly smaller than CUNA Mutual) that has successfully demutualized, and that occurred 15 years ago. In contrast, several large and complex insurers have demutualized under Iowa's demutualization law, including Principal Mutual and AmerUs (formerly American Mutual Life), which eventually became publicly-traded corporations following their initial MHC formation. Iowa demutualization law allows for a straightforward process in a timeframe that both addresses business requirements and assures that policyholder interests are protected. Again, while CUNA Mutual has no plans for demutualization, if changing business requirements ever dictate that demutualization is a prudent course for the company and its policyholders, it wants to be positioned to move as quickly as reasonably possible.

The final area relates to a joint industry-regulatory initiative in Iowa this year concerning derivatives. The Iowa life insurance industry approached the Iowa insurance division with ideas on ways to enable insurers to manage derivatives transactions more efficiently without compromising company safety and soundness. This was part of an ongoing industry-regulatory dialogue concerning derivatives. Following these discussions, the insurance division included in its omnibus insurance bill this year provisions relative to this derivatives initiative. The legislation was enacted and has two primary components. The first is an amendment to the holding company law to permit bundling of derivatives activity among related insurers through a "derivatives conduit" vehicle. The second is an amendment to the legal reserve investment statute to enable an insurer to include in its legal reserve derivatives used in hedging transactions between the insurer and the "conduit" if certain requirements are met. This is a novel concept in the insurance regulatory environment and is one that CUNA Mutual might wish to avail itself of as its investment operations continue to become more and more sophisticated.

### 3. General comparison of Iowa and Wisconsin insurance law.

See the attached comparison chart. Note that it generally discusses the laws with respect to both life and property/casualty insurers.

### 4. Discussion of why CUNA Mutual desires the redomestication to occur by February 1, 2007.

As described in the proposed timeline under point 1 above, management believes that it is a realistic and practical goal to complete a merger by the desired effective date of January 1, 2008, at the start of a new fiscal year. To reach this goal, we must accomplish many important steps, and the change in domicile of CUNA Mutual is a critical initial step. Because CUNA Mutual is a financially sound and well-regarded insurer, well known to both Wisconsin and Iowa regulators, we are especially hopeful that this comprehensive initial filing, and any follow-up requests we respond to, will provide sufficient documentation to allow the redomestication to proceed at a steady pace such that it is completed by February 1, 2007.

5. A copy of CUNA Mutual's current nondomestic license in our intended state of domicile, Iowa, is enclosed.

6. A copy of a letter from the Iowa Deputy Commissioner of Insurance indicating that the Iowa Insurance Division has no objection to the change of domicile is enclosed.

7. Description of the business plan.

Please see the Plan of Operation included with the request for admission as a foreign insurer (part B of this letter).

8. Indication of any permitted practice decisions that may need to be reissued by the intended state of domicile.

CUNA Mutual has two permitted practices that would need to be reissued by the Iowa Insurance Division, which has preliminarily signaled that reissuing them should not be an issue. Specifically, the two accounting practices, which CUNA Mutual has adopted with the permission of the OCI, are: (a) Certain monthly credit life, credit disability, home mortgage and life savings policies are billed and paid in arrears. CUNA Mutual recognizes such premiums as income in the month coverage is afforded, rather than when the premiums are due, as required by the NAIC SAP; and (b) CUNA Mutual owns, through a downstream holding company, half ownership in three mortgage insurance companies. Mortgage insurers are required to record contingency reserves as a liability in their statutory financial statements to protect against the effects of adverse economic cycles. CUNA Mutual reduces a portion of the statutory contingency reserve in determining the net carrying value of its mortgage insurance affiliates.

9. Indication of any change in officers, directors, or in the reinsurance program.

No such changes are to be made as part of the redomestication.

10. Amended articles of incorporation

Work on the revised CUNA Mutual articles is ongoing, and changes to them will of course require policyholder approval as addressed in the timeline above.

## **B. Application for Certificate of Authority**

The following information is being provided to assist OCI in its review of CUNA Mutual's request for a Certificate of Authority as a foreign insurer.

- CUNA Mutual is making no changes to its currently authorized lines of business.
- CUNA Mutual's Principal Office will become 2000 Heritage Way, Waverly, Iowa 50677.
- CUNA Mutual is presently working with the Wisconsin and Iowa Insurance Departments to change its state of domicile from Wisconsin to Iowa. This application is part of the process.

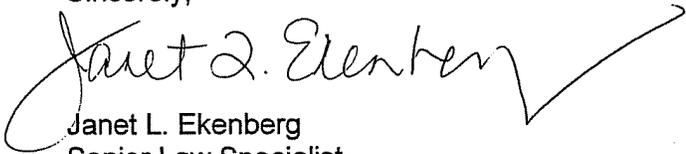
- Contact Person is Janet Ekenberg, c/o CUNA Mutual Group (5910 4 C2), 5910 Mineral Point Road, Madison, Wisconsin 53705; E-mail address is [janet.ekenberg@cunamutual.com](mailto:janet.ekenberg@cunamutual.com); telephone: 608-231-7883; fax 608-236-7883.

In support of CUNA Mutual's request for admission as a foreign insurer, please find enclosed a completed Expansion Application, which contains information and completed documents related to the following items:

1. Expansion Application Form and Supporting Documents
2. Filing Fee
3. Minimum Paid-in Capital and Surplus Requirements
4. Certificate of Deposit for Statutory Deposit Requirements
5. Name Approval
6. Plan of Operation
7. Holding Company Form "B" Registration Statement
8. Certificate of Compliance
9. Report of Examination
10. Statutory Memberships
11. Public Records Package
12. NAIC Biographical Affidavits
13. Uniform Consent to Service of Process
14. State-Specific Information

Thank you for your time and consideration. Please give me a call if you have any questions or need additional information.

Sincerely,



Janet L. Ekenberg  
Senior Law Specialist  
Legal Division

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