Independent Expert's Report

The Proposed Insurance Business Transfer from Sentry Insurance a Mutual Company to National Legacy Insurance Company

Prepared for the Oklahoma Insurance Department

September 2020

Melissa S. Holt, FCAS, MAAA

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The Honorable Glen Mulready
Oklahoma Insurance Commissioner
Oklahoma Insurance Department
3525 NW 56th Street, Suite 100
Oklahoma City, OK 73112

September 29, 2020

Dear Commissioner Mulready:

Please find attached a copy of the Independent Expert's Report on the Proposed Insurance Business Transfer from Sentry Insurance a Mutual Company to National Legacy Insurance Company.

PwC appreciates the opportunity to provide Independent Expert services to the Oklahoma Insurance Department and the District Court of Oklahoma County. We look forward to discussing this report with you at your convenience. If you have questions or comments please feel free to call the Independent Expert, Melissa Holt, at 678-799-2280.

Yours sincerely,

PricewaterhouseCoopers LLP

Melissa Holt, FCAS, MAAA
Director

Christine Kogut, FCAS, MAAA
Principal

Contents

1 Introduction

Section 1: Introduction

1.1 Purpose of the Report

Sentry Insurance a Mutual Company (Sentry or Transferring Company) is proposing the transfer of its liabilities within the Excess and Casualty Reinsurance Association (ECRA) pool to National Legacy Insurance Company (NLIC or Assuming Company, the Companies together with Sentry), an Oklahoma domiciled insurance company. The transfer is planned to be effective during fall 2020 depending on the schedule of the Court. This report is prepared for the Oklahoma Insurance Department Commissioner (Commissioner) and the District Court of Oklahoma County (Court) for the purpose of understanding and assessing the effect of the proposed Insurance Business Transfer (IBT or transfer) on policyholders.

The Oklahoma Insurance Business Transfer Act (the Act, 36 Okla. Stat. §§ 1681-1686) enables the transfer and novation of a portfolio of insurance policies in that policies are completely separated from one insurance company and moved to another as if the Assuming Company had issued the original policies rather than the Transferring Company. The transfer of policies is effected by order of the Court after review and approval by the Commissioner with the assistance of an independent expert (IE). This report, as required by the Act, describes the proposed transfer and its potential impact on policyholders and is provided to assist the Court in assessing the impact of the proposed transfer on the policyholders of Sentry and NLIC, including the effect of the transfer on the security of policyholders and the level of administrative service provided to policyholders by the respective insurance companies. The report has been prepared solely for the purpose of assessing the impact of the transfer to meet the requirements of the Act.

As the policies proposed to be transferred are reinsurance policies resulting from Sentry's participation in a reinsurance pool, the transferring policyholders will be referred to as the "transferring reinsureds" throughout this report. The term "insurance" is used to include both insurance and reinsurance. Appendix A provides a glossary of terms used in the report.

1.2 Role of the Independent Expert

The IE is charged with assisting the Commissioner and the Court with assessing the relevant facts and circumstances surrounding the proposed IBT and must demonstrate independence and sufficient skill, experience and resources to provide an opinion on whether the transfer will have a material adverse impact on policyholders. The IE is appointed by the Commissioner for each transfer, selected from two nominees submitted jointly by the Transferring and Assuming Companies.

1.2.1 Independent Expert Appointment

I, Melissa S. Holt, have been appointed by the Commissioner to serve as the IE for the proposed transfer between Sentry and NLIC. PricewaterhouseCoopers LLP (PwC) entered into an Independent Expert Agreement with the Oklahoma Insurance Department (OID), Sentry and NLIC, dated November 25, 2019, governing the specific terms of my work.

I am a Director in the Actuarial Services practice of PwC, a Fellow of the Casualty Actuarial Society and Member of the American Academy of Actuaries. I have more than 20 years of experience practicing as a Property and Casualty actuary. In particular, I have relevant experience with asbestos and environmental exposure (A&E) for insurance companies, captive insurers, and self-insured entities and experience with run-off entities. As such, I have the appropriate credentials to evaluate the reserve levels and capital testing for property/casualty insurance liabilities. Additional information on my experience is included in Appendix B.

Due to the recent passage of the Act in 2018 establishing IBT in the United States and the limited number of prior domestic IBT transactions, I have not previously served as an IE. However, I have consulted with PwC colleagues in the United Kingdom with extensive experience in Part VII Transfers. IBT transactions and procedures established by the Act are similar in substance to the Part VII Transfers, which have been common in the United Kingdom market for 20 years.

1.2.2 Independence

I have no personal or financial interest, direct or indirect, in either Sentry or NLIC. I have not previously performed any work for Sentry, NLIC, or their affiliates. PwC does not audit Sentry, NLIC, or their affiliates. PwC has performed and continues to perform other work for Sentry and for NLIC affiliates. However, the revenue for these projects is not material relative to total revenue in the PwC US firm. I do not believe that the unrelated PwC engagements for the Companies impair my independence in assessing the impact of the proposed transfer on the policyholders of Sentry and NLIC. OID reviewed the history of work performed by PwC for Sentry and NLIC affiliates over the last three years and confirmed my independence as part of the appointment process.

The duty of the IE to the Commissioner and the Court overrides all other considerations. It would be improper for the IE to take instructions from any parties, person, or entity (other than the OID or the Court) on what should be included in or excluded from this report. I confirm that I understand my duty to the Court and have complied with this duty.

Where I use the terms “I” or “my” in this report in describing work that I have performed, this should be interpreted to mean me or the team working under my direct supervision. Where “I” or “my” is used in the context of an opinion, the opinion is mine.

1.3 Scope of the Report

This report describes the proposed transfer and is an expression of my opinion, as the IE, regarding the likely effects of the proposed IBT on policyholders and claimants, distinguishing between transferring reinsureds and claimants of the Transferring Company; policyholders and claimants of the Transferring Company whose policies will not be transferred; and current policyholders and claimants of the Assuming Company. Consistent with the specifications of the Act, the report includes a review of the following:

a) Analysis of the most recent actuarial review(s) of reserves for the subject business to determine the reserve adequacy;
b) Analysis of the financial condition of the Transferring and Assuming Companies and the effect the transfer will have on the financial condition of each of the Companies;
c) Review of the plans or proposals the Assuming Company has with respect to the administration of the policies subject to the proposed transfer;
d) Consideration of whether the proposed transfer has a material, adverse impact on the policyholders and claimants of the Companies;
e) Analysis of the Assuming Company's corporate governance structure to ensure that there is proper board and management oversight and expertise to manage the subject business; and
f) Any other information that the Commissioner requests in order to review the Insurance Business Transfer.

My work includes an assessment of the capital position and the insurance liabilities of the Companies, to the extent necessary for the purpose of describing the likely effects of the transfer on policyholder and claimant security.

- My assessment of unpaid claim liabilities is based on internal and external actuarial reviews. The actuarial studies were based on ECRA data evaluated between 2015 and August 2019 with unpaid claims estimates rolled forward to December 31, 2019. I also utilized the December 31, 2019 statutory financial statement and the Statement of Actuarial Opinion for Sentry. My review of the methods, assumptions and conclusions of the provided actuarial reviews combined with analysis of reserve diagnostics was sufficient for me to gain comfort over the loss reserve estimates and I did not perform an independent actuarial estimation of Sentry’s ECRA liabilities.
- I assessed the amount of capital and nature of the assets planned to be held by NLIC after the transfer. I also reviewed the reported and expected capital positions of both Companies before and after, respectively, the proposed transfer.

Supporting my consideration of factors that may have a material, adverse impact on the transferring reinsureds, I have gained an understanding of other relevant issues which may impact the transferring reinsureds, including reinsurance protecting the ECRA liabilities before the transfer, the financial strength of each of the Companies as measured using the National Association of Insurance Commissioners (NAIC) Risk-Based Capital (RBC) framework, governance planned for NLIC, and administrative changes in services provided to the transferring reinsureds. I am not aware of any relevant matters which I have not considered in my review.

I have not considered any alternate terms for the proposed transfer. No alternative terms have been proposed.

1.4 Materials Considered

My evaluation is based upon data and related information prepared by the Companies and ECRA management. A list of data, documents, reports and other material information which I considered in preparing the report is provided in Appendix C. I have also held discussions with relevant staff at Sentry and NLIC.

Loss reserve evaluation is primarily based on ECRA claims data evaluated as of August 2019 as well as payments through December 31, 2019. I also utilized the December 31, 2019 statutory financial statements and the Statement of Actuarial Opinion for Sentry and pro-forma projections provided by NLIC for 2020 through 2022.

I evaluated the data used directly in the analysis for reasonableness and consistency by investigating and working with the Companies' representatives to resolve data points that fall outside of the range of reasonable possibilities and materially affect the evaluation. I have otherwise relied on the accuracy of the information provided to me. My checks of data reasonability and consistency did not find any material issues with the data that would cause me to question its appropriateness for this purpose.

As actuarial estimates are dependent upon the quality of the underlying information, uncertainty as to the reliability of the information provided to the IE during the review could materially impact the findings.

I have received all information which I requested for the assessment and production of this report.

Sentry and NLIC have confirmed that the information provided to me is complete and accurate to the best of their knowledge and that there have been no material changes to the financial position of either company since the information was provided.

1.5 Making Use of the Work of Others

I have obtained the following reports from third parties:

- Reports prepared by Milliman for Excess Treaty Management Corporation (ETMC) analyzing unpaid claim liability for the ECRA pool using ECRA data evaluated in August 2019 and April 2016 issued by Milliman on October 24, 2016 and February 14, 2020 respectively.

- Reports prepared by Willis Towers Watson for Accredited Surety and Casualty (ASC), an NLIC affiliate, estimating unpaid claim liability for Sentry's participation in the ECRA pool using ECRA data evaluated in December 2017 and ASC payments through December 31, 2019 issued by Willis Towers Watson on May 30, 2019 and April 23, 2020 respectively.

These reports were prepared by Milliman and Willis Towers Watson to meet a specific purpose for the commissioning entities and not for any other purpose. I have placed no reliance on these reports. Where I have used the reports, I have performed sufficient work of my own to confirm that it was appropriate for me to use the information for the purpose of forming opinions on the transfer.

1.6 Materiality

I have considered matters to be material if they could individually or collectively influence the decisions made by the Commissioner or the Court, the intended users of the IE report. I have applied this concept of materiality in planning the nature and extent of my work, performing my assessment, and communicating my approach and conclusions in this report. With regard to assessing the impact of the transfer on policyholder security, I have applied reasoned judgment to the interplay of factors involved to consider whether or not a policyholder would have cause to be concerned about the change in their security. If, in my opinion, the probability or likelihood of reduced payment is sufficiently insignificant, I have deemed the impact to be immaterial.

1.7 Professional Standards

The Opinion Report was prepared in accordance with Actuarial Standards of Practice and Code of Professional Conduct as promulgated by the American Academy of Actuaries and the Act except as described below.

Consistent with the confidential nature of the considered materials and objectives of this report, and in order to effectively communicate my findings to the Court, I have not described all of the details in this report that would normally be included in an actuarial communication as required by Actuarial Standard of Practice No. 41. I have not described details of the methodologies and assumptions underlying the review of unpaid claims reserves and capital assessments.

1.8 Limitations on Distribution

With the exception of the Companies and the OID the IE's Opinion Report, Summary, and Supplemental Report shall remain confidential until the OID authorizes, in writing, the Companies to apply to the Court for approval of the transaction. The IE and PwC do not and will not accept any responsibility, duties of care, liability, or legal duty to any person other than OID, the Companies and the Court. Except as required by applicable law, the IE's work papers and Opinion Report may not be filed with the SEC or other securities regulatory bodies.

The Companies may release the report to their third-party professional advisors (including subcontractors, accountants, auditors, attorneys, financial, and other advisors) that are acting solely for the Companies' benefit and on the Companies' behalf and that have a need to know such information in order to provide advice or services to the Companies (collectively, "Third-Party Professional Advisors"), provided that such Third-Party Professional Advisors agree: (i) that the IE and PwC did not prepare this report for such Third-Party Professional Advisors' use, benefit, or reliance and that PwC assumes no duty, liability, or responsibility to such Third-Party Professional Advisors; and (ii) not to disclose the report to any other party without PwC's prior written consent. PwC's prior written consent (which consent will include the requirement to enter into an access letter in PwC's standard form) shall be required if the Companies wish to disclose this report with any person or entity that is not a Third-Party Professional Advisor. For the avoidance of doubt, Third-Party Professional Advisors do not include any parties that are providing or may provide insurance, financing, capital in any form, a fairness opinion, or selling or underwriting securities in connection with any transaction that is the subject of this report or any parties that have or may obtain a financial interest in Companies or an anticipated transaction. Judgments as to the conditions, methods, and data contained in this report should be made only after studying the report in its entirety, including exhibits and appendices, and understanding the reliance and limitations inherent in our analysis, as described in the subsequent sections. The use of parts of this report in isolation may result in erroneous or misleading conclusions. The IE and Actuarial Services staff of PwC remain available to answer any questions that may arise regarding this report. We assume that the user of this report will seek such explanation on any matter in question.

The Companies may disclose the report to, or discuss information relating to this report with, policyholders, the insurance regulators with jurisdiction over the associated transaction, and others affected by the proposed transaction as defined in the Act.

2

Executive Summary

Section 2: Executive Summary

2.1 Transfer Summary

Sentry is proposing the transfer of its unpaid claims liabilities that were assumed through reinsurance of the Excess Casualty Reinsurance Association (ECRA) pool to NLIC. NLIC is an Oklahoma domiciled company established in 2019 with no policyholders prior to the proposed transaction. The transfer is planned to be effective during fall 2020. ECRA is a reinsurance pool that underwrote property and casualty risks between 1959 and 1982. The pool is comprised of numerous insurance and reinsurance companies, who collectively reinsured a variety of commercial risks, originally insured under policies issued by ceding insurers (who may or may not be members of ECRA assuming reinsurance from the pool). At the time of this report, the majority of the pool's unpaid losses are expected to relate to asbestos, pollution/environmental, and other mass tort liabilities. Sentry's assumed reinsurance participation in the pool was approximately $2.9 million of loss and loss adjustment expense reserves at December 31, 2019. These liabilities have been reinsured by ASC, an NLIC affiliate, since 2016. In the proposed transfer, Sentry's assumed reinsurance liabilities from the ECRA pool will be transferred to NLIC, terminating Sentry's liability for the exposure, and the reinsurance provided by the NLIC affiliate will be commuted.

2.2 Conclusions

I have considered the proposed transfer and the likely effect of the transfer on the Sentry policyholders who will not be transferred as well as on the ECRA reinsureds whose liabilities will be transferred. As noted elsewhere in the report, there are no current policyholders of NLIC.

Based on my review, I have reached the following conclusions:

- Reserves to be recorded by NLIC after the transfer for unpaid losses and associated expense for claims handling appear reasonable based on my understanding of the methodologies used in the provided actuarial reserve studies, the reasonability of key assumptions and my review of reserve diagnostics.
- The financial condition of Sentry will not be materially changed by the transfer and, therefore, the transfer will have no discernible impact on the policyholders remaining with Sentry.
- NLIC is a strongly capitalized but smaller, less diversified insurer than Sentry. Based on testing of a range of adverse outcomes for total claims and investment yields, I am satisfied that the likelihood of ECRA claims going unpaid by NLIC is sufficiently small as to be immaterial and that transferring reinsureds will not be materially adversely impacted by the transfer.
- NLIC plans for administration of the ECRA reinsurance claims to remain with ETMC, the entity managing the ECRA pool since 1959. There will be no change to the ECRA transferring reinsureds' policyholder experience as a result of the transfer.
- NLIC has an appropriate corporate governance structure to ensure proper board and management oversight. NLIC management has appropriate expertise to manage the transferring ECRA reinsurance business after the transfer.
- The strategy to communicate the IBT plan and hearing information to the Sentry policyholders, transferring ECRA reinsureds, and other stakeholders as required by the Act is reasonable and appropriate for the various parties to be notified.
- In my opinion, the transfer does not materially, adversely impact the Sentry policyholders or the reinsureds in the business being transferred.

3

Outline of the Transfer

Section 3: Outline of the Transfer

3.1 Companies Involved in the Transfer

3.1.1 Sentry Insurance a Mutual Company (Transferring Company)

Sentry Insurance a Mutual Company is the lead company in the Sentry Group of insurers domiciled in Wisconsin. The company was formed in 1904 as a mutual insurance company by the Wisconsin Retail Hardware Association. The Sentry name was adopted in 1962 and the company continued to grow, including through mergers and acquisitions. The following Sentry Group members participate in an intercompany pooling arrangement. Insurance risks are underwritten directly by each company in the pool and then premium and losses from each of the companies are ceded to the lead company. The pooled insurance risk is then ceded back to each company at an agreed percentage of the whole. Under this arrangement, each company in the group benefits from the diversification of the pooled risks. The transferring ECRA reinsurance was originally assumed from ECRA by Sentry Insurance a Mutual Company and the assumed ECRA reinsurance risk is pooled and shared by all companies in the Sentry Group. Throughout this report, all discussion and analysis of Sentry refers to Sentry Insurance a Mutual Company, the underwriting company of the transferring business in the proposed transaction, unless otherwise specified. An organization chart of Sentry Group is provided in Appendix D.

Table 1
Sentry Group Intercompany Pooling

Company	Domicile	Pool Percentage
Sentry Insurance a Mutual Company	WI	54%
Dairyland Insurance Company	WI	17. 5%
Middlesex Insurance Company	WI	10%
Sentry Select Insurance Company	WI	10%
Viking Insurance Company of Wisconsin	WI	5%
Sentry Casualty Insurance Company	WI	2. 5%
Florists' Mutual Insurance Company	IL	1%

Sentry writes a variety of property and casualty coverages including personal and commercial lines of business. Table 2 summarizes the loss and loss adjustment expense reserves recorded in Sentry's statutory annual statement for major lines of business at December 31, 2019.

Table 2
Sentry Insurance a Mutual Company
Net and Gross Recorded Loss and LAE Reserves at 12/31/19
($000s)

Schedule P Line	Gross ($)	Gross (%)	Net ($)	Net (%)
Workers' Compensation	1,097,469	48%	935,176	47%
Commercial Auto Liability	315,849	14%	292,993	15%
Private Passenger Auto Liability	324,577	14%	282,183	14%
Other Liability Occurrence	198,043	9%	176,405	9%
Products Liability	179,276	8%	148,814	7%
Special Property	59,760	3%	50,168	3%
Reinsurance	33,492	1%	29,356	1%
Auto Physical Damage	26,326	1%	26,318	1%
Other	57,551	3%	54,417	3%
Total	**2,292,343**	**100%**	**1,995,830**	**100%**

3.1.1.1 Sentry Planned Restructure

In the last quarter of 2019, Sentry filed plans with the Wisconsin Office of the Commissioner of Insurance to restructure Sentry Insurance a Mutual Company to a Mutual Holding Company and a Stock Insurance Company. The new structure will be effective January 1, 2021. Following the restructuring, Sentry Insurance a Mutual Company will be named Sentry Insurance Company. Sentry Insurance Company will be a stock company with shares entirely held, directly or indirectly, by Sentry Mutual Holding Company and will not be publicly traded. All membership interests and rights in surplus of Sentry Insurance a Mutual Company will be extinguished and the members will become members in the newly created Sentry Mutual Holding Company with such rights and privileges, including membership interests and rights in surplus of Sentry Mutual Holding Company. As part of the restructuring, Sentry expects to pay less than $50 million in dividends to Sentry Mutual Holding Company along with transferring certain expenses. The planned restructuring does not provide dividends directly to members.

3.1.2 National Legacy Insurance Company (Assuming Company)

National Legacy Insurance Company (NLIC) is a wholly owned subsidiary of Randall & Quilter America Holdings Inc., which is in turn owned ultimately by Randall & Quilter Investment Holdings Ltd. (R&Q Group). NLIC is an Oklahoma domiciled insurance company established in 2019 for the purpose of enabling R&Q Group to consolidate certain run-off portfolio acquisitions under the Oklahoma Insurance Business Transfer Act (Act). Prior to the proposed transaction, NLIC is a shell company with no insurance liabilities.

R&Q Group was founded in 1991 by Ken Randall and Alan Quilter. The R&Q Group operations are focused on acquisitions of insurance programs in run-off and program management, acting as a conduit for insurance business generated through niche managing general insurance agencies to highly rated reinsurers. R&Q Group owns and manages a portfolio of insurance companies in the United States, United Kingdom, and Europe. An organization chart of the R&Q Group is provided in Appendix D.

Other R&Q Group entities pertinent to the transfer include Accredited Surety and Casualty (ASC) and Excess Treaty Management Corporation (ETMC). ASC has reinsured the Sentry ECRA assumed liability through a 100% quota share reinsurance contract since December 2016. ETMC, the pool manager for ECRA, was acquired by R&Q Group in 2010.

3.2 Description of the Transfer

3.2.1 Excess and Casualty Reinsurance Association

3.2.1.1 Structure of the Pool

The Excess and Casualty Reinsurance Association (ECRA) is a reinsurance pool underwriting various property and casualty risks between 1959 and 1982. The pool is comprised of numerous insurance and reinsurance companies, who collectively reinsured a variety of commercial risks, originally insured under policies written by ceding insurers (who may or may not be subscribing members of ECRA). ECRA accepted insurance risk from various ceding insurance companies through both treaties (contracts applying to many similar policies) and facultative certificates (contracts with bespoke coverage features and pricing for a particular risk). The ceding insurance company typically issued policies directly to the insured party, and then purchased reinsurance through ECRA. The liability reinsured by ECRA across all cedents was pooled and transformed into assumed share percentages reinsured by each subscribing member of the pool.

The members of the pool changed each year and the shares that each member assumed varied by year. In total, more than 150 companies participated as members of the pool. Some of the pool members are now insolvent and may not fulfill payment obligations to ECRA. Some of the ceding insurance companies have commuted their contracts with the pool, by settling remaining liabilities with the pool, likely at a discounted amount. In these latter cases, the ceding companies re-assumed the remaining unpaid claim liabilities.

3.2.1.2 Nature of Liabilities Subject to the Transfer

ECRA assumed a variety of commercial risks throughout its years of operation but in the years since it ceased underwriting in 1982 the majority of claims have been paid. This is particularly true for property coverage and simple liability claims. The claims that remain generally relate to the following:

- liability exposures with payments that continue over many years like workers' compensation and medical payments from general liability policies; or
- losses for which injuries or damage occurred during the coverage period but the injuries or damage were not discovered until many years later.

At year-end 2019, thirty-seven years after ECRA stopped assuming liability, the majority of ECRA's estimated unpaid losses related to asbestos exposure, pollution or environmental liability, and mass torts with some remaining workers' compensation and general liability open claims. Asbestos claims continue to emerge due to the long latency period of illnesses caused by asbestos exposure. Pollution and environmental liability may result from unintentional releases during past operations that are discovered many years later or from practices that were acceptable in the past but later result in sites with contamination violating more recent environmental regulatory thresholds. Mass torts may emerge as products or practices from prior operations are identified as causing injuries, illnesses, or damages. Examples of recently identified mass torts include talc and sexual abuse claims following reviver statutes enacted by some states. Based on history, and absent wholesale commutations with reinsureds, ECRA claim payments to reinsureds are expected to continue for thirty to forty-five more years.

3.2.2 Sentry ECRA Assumed Contracts

Sentry participated as an ECRA pool member for calendar policy years1972 through 1981 with various small annual shares summarized in Table 3 below.

Table 3
Sentry Insurance a Mutual Company
ECRA Pool Participation Percentages

Calendar Policy Year	Sentry Share
1/1/1972 to 1/1/1973[1]	0.593%
1/1/1973 to 1/1/1974	0.524%
1/1/1974 to 1/1/1975	0.468%
1/1/1975 to 1/1/1976	0.468%
1/1/1976 to 1/1/1977	0.467%
1/1/1977 to 1/1/1978	0.449%
1/1/1978 to 1/1/1979	0.412%
1/1/1979 to 1/1/1980	0.369%
1/1/1980 to 1/1/1981	0.409%
1/1/1981 to 1/1/1982	0.393%

3.2.3 Transaction

Sentry is proposing to novate and transfer its assumed reinsurance liabilities from the ECRA pool to NLIC. Sentry's assumed reinsurance participation in the ECRA pool is relatively small with approximately $2.9 million of loss and loss adjustment expense reserves recorded at December 31, 2019.

Sentry will not transfer any assets to NLIC in the insurance business transfer beyond the $3.5 million that it has already paid to ASC. The reinsurance with ASC was put in place as a means to immediately transfer Sentry's ECRA payment obligations to the R&Q Group with the intention of ultimately completing an insurance business transfer of the reinsured liabilities to a company within the R&Q Group to achieve legal finality. In the proposed insurance business transfer, Sentry's assumed reinsurance liabilities from the ECRA pool will be transferred to NLIC, terminating Sentry's liability for the exposure. The total agreed price of $3.5 million represents the premium that Sentry previously paid to ASC for reinsuring Sentry, with the reinsurance remaining in effect through the date of the insurance business transfer.

ASC will commute the reinsurance on the transferring liabilities, which was originally provided to Sentry, simultaneously with the insurance business transfer. The remaining premium held by ASC will be transferred to NLIC simultaneously with the insurance business transfer, subject to regulatory approval of the IBT by the State of Wisconsin and the state of Oklahoma. There is no other reinsurance that applies to the transferring liability. Between December 8, 2016 and December 31, 2019, ASC paid claims to ECRA of $650 thousand leaving $2.85 million of the total reinsurance premium and transfer price to be transferred to NLIC.

The costs of the transaction will be paid by NLIC out of the transfer price and the final transfer price will be reduced by amounts paid for ECRA claims subsequent to December 31, 2019 and before the final transfer.

3.2.4 Claims Administration

The pool members appointed ETMC as the ECRA pool manager to handle claims and reinsurance settlements. ETMC provides billing statements and outstanding case reserve and incurred but not reported (IBNR) reserve reports to the pool members at intervals agreed to by ETMC and the ECRA member. Documents containing the data for Sentry's activity under its ECRA participation are distributed to Sentry and ASC quarterly. Since the 2016 reinsurance agreement between ASC and Sentry, ASC has paid billing statements related to the transferring liabilities. After the transfer, claims handling and billing will continue to be managed by ETMC but NLIC will receive the ETMC monthly reporting documents and remit

[1] Sentry participated in two pools in 1972, Property & Casualty Syndicate and Property & Casualty Syn Mutual

payments for invoices, as NLIC will have ‘stepped into the shoes’ of Sentry. Because NLIC and ASC have common operational functions within the R&Q Group, there will be no impact to policy administration or claims handling practices for billing statements and reserve reports provided by ETMC.

There will be no impact to policy administration or claims handling practices for the claims submitted by ECRA reinsureds to ECRA and its manager, ETMC.

3.3 Purpose of the Transfer

R&Q Group plans to utilize the Act to consolidate certain run-off portfolio acquisitions using NLIC as a vehicle for a series of transactions involving legacy exposures. By consolidating such portfolios, R&Q Group can more efficiently manage these run-off portfolios by focusing management expertise and appropriate functions for the run-off exposure into one entity. From Sentry’s perspective, the proposed transfer would reduce reserving uncertainty gross of reinsurance by removing long-term claims from Sentry’s portfolio and would streamline administration by eliminating management of this segment that is not part of Sentry’s core businesses.

4 Analysis

Section 4: Analysis

4.1 Approach

In order to develop my opinion on the likely effects of the proposed transfer on claimants and policyholders, I have employed the following approach.

- Understand the impact of the transfer on loss reserves and assess loss reserve adequacy.
- Understand the impact of the transfer on the assets and liabilities for each company.
- Assess the likely effect of the transfer on the security of each group of policyholders impacted by the transfer.
- Consider the planned changes to policy administration and corporate governance, and planned communications to policyholders.

As of the valuation date, the unpaid claim liabilities that are the subject of the proposed IBT relate primarily to long-latent claims exposures, including asbestos, environmental, or other types of exposures. The estimation of ultimate claims liabilities for these exposures is not amenable to traditional actuarial development methodologies which utilize aggregated loss development histories by exposure period by maturity. This is due, in part, to the challenges associated with identifying specific dates of loss, as claims often are deemed to have occurred over a multi-year period. Differing legal theories have emerged as to mapping the claims exposures to one or more original policy periods. Estimations of ultimate claims liabilities may be generated using ground-up exposure and claims studies, modelling of aggregated cumulative payments, market-share based methods, or other methods deemed appropriate.

Sentry and NLIC provided data and other information supporting my review including statutory financial statements, actuarial loss projections and Statements of Actuarial Opinion, balance sheets before and after the transaction, investment plans, RBC analysis, sensitivity testing of capital adequacy, and NLIC's Own Risk and Solvency Assessment (ORSA) reports. I reviewed the provided material and held discussions with the companies and their consultants to clarify my understanding of the materials.

As part of my review, I considered industry benchmarks in assessing the reasonability of key assumptions such as loss payment patterns, reserve ratios, survival ratios, and RBC ratios. Additionally, I performed my own analysis to independently test the impact of various alternate assumptions related to loss reserves and capital adequacy. The primary focus of independent testing was on capital adequacy and understanding the circumstances under which ECRA reinsureds might be adversely affected. I considered various scenarios with higher ultimate claim payments, changes to the timing of claim payments, and alternate investment returns as well as performing modeling to assess the likelihood of extremely high claim scenarios.

4.1.1 Evaluation Date

Financial estimates presented in this analysis are evaluated as of December 31, 2019. I selected this evaluation date to utilize the most recent financial reporting information available as of the writing of this report. Between December 31, 2019 and the execution of the transfer, I expect the transferred liabilities to be decreased by additional payments made to ECRA reinsureds. I do not expect changes to the initial planned surplus for NLIC nor do I expect changes to Sentry's balance sheet that would alter my conclusions. Prior to the final hearing, I plan to provide the OID and the Court with a supplementary report addressing any changes in the financial position of the companies and providing consideration of other relevant matters arising after this report is issued.

4.2 Impact of the Transfer on Loss Reserves

Loss reserves before and after the transfer for each company are summarized in Table 4. Loss reserves are monies held by insurance companies to pay the estimated unpaid claims liabilities assumed by the insurer through insurance and reinsurance contracts for claims by or against policyholders. Insurance companies also hold reserves for expenses related to settling claims such as legal fees, investigation costs, claims administration, and other administrative expenses. Throughout this report, estimates of unpaid claims include both loss reserves and loss adjustment expense (LAE) unless

otherwise specified. Loss reserves are evaluated as of December 31, 2019 in this comparison.

Because the transferring liabilities are reinsured by ASC, there is no impact to Sentry's net loss reserves. On a gross of reinsurance basis, transferring the ECRA liabilities reduces Sentry's loss reserves by only 0.1% and does not result in a material change to Sentry's loss reserves. Prior to the transfer, NLIC is a recently formed company with no loss reserves. NLIC's planned loss reserves are consistent with Sentry's gross recorded reserves for ECRA. There is no material difference between loss reserve estimates of the transferring reinsured liabilities for Sentry and NLIC, with NLIC's reserves after the transfer of $2.902 million being $0.046 million greater than Sentry's gross-basis provision for the subject liabilities.

Table 4
Comparison of Loss and LAE Reserves
($000s)

	Sentry			NLIC		
	Before IBT	After IBT	Change	Before IBT	After IBT	Change
Gross of Reinsurance	$2,292,343	$2,289,487	($2,856)	$0	$2,902	$2,902
Ceded	296,512	293,656	(2,856)	0	0	0
Net of Reinsurance	1,995,831	1,995,831	0	0	2,902	2,902

4.3 Impact of the Transfer on Assets and Liabilities

Simplified balance sheets before and after the transfer for each company are summarized in Table 5. Sentry's amounts are summarized from the 2019 statutory financial statements. NLIC's assets reflect the capitalization of the company prior to the transfer and meet Oklahoma's minimum surplus requirements of $5.0 million for insurance companies underwriting workers compensation. Liabilities represent reserves for unpaid losses and LAE. Because the transferring liabilities have been reinsured by ASC, there is minimal impact to Sentry's balance sheet and no impact on its level of surplus.

Table 5
Comparison of Simplified Balance Sheets
($000s)

	Sentry			NLIC		
	Before IBT	After IBT	Change	Before IBT	After IBT	Change
Assets	$9,511,093	$9,508,237	($2,856)	$5,000	$7,902	$2,902
Liabilities	3,544,303	3,541,447	(2,856)	0	2,902	2,902
Capital & Surplus	5,966,790	5,966,790	0	5,000	5,000	0

4.4 Policyholders Affected by the Transfer

4.4.1 Transferring Reinsureds

The liabilities being transferred exclusively relate to property and casualty reinsurance that Sentry provided through ECRA for calendar policy years 1972 through 1981. The policyholders underwritten by the ECRA pool are insurance and reinsurance companies. There are no individual or commercial claimants or policyholders directly impacted by the transfer.

4.4.2 Policyholders Remaining with Sentry

Sentry is a large mutual insurance company which has provided a range of property and casualty insurance products since 1904. At December 31, 2019, Sentry had approximately 190,000 in-force policies, $604.0 million of unearned premium, and $2.0 billion of reserves recorded for loss and loss adjustment expense, net of reinsurance. Except for the ECRA related reinsurance, all other policyholders and claimants remain with Sentry.

4.4.3 NLIC Policyholders before the Transfer

NLIC has no insurance liability and no policyholders prior to this transfer.

4.4.4 Focus of the IE

The Act requires that the IE consider the effect of the transfer on the three separate groups of policyholders listed above.

As previously discussed, the transferring liabilities (net $0 loss reserves) are immaterial relative to the underwritten liability for policyholders remaining with Sentry. Because NLIC does not have any policyholders prior to the transfer and because the impact to policyholders remaining at Sentry is not material, my analysis and the following discussion will focus on the impact of the transfer on the ECRA reinsureds that are being transferred to NLIC.

4.5 Loss Reserve Adequacy

4.5.1 Approach to Loss Reserve Assessment

The outstanding unpaid claims liabilities that are being transferred have been reviewed by two separate actuarial firms through different channels for use by ETMC and ASC. I reviewed the two independent actuarial reports and supporting exhibits as well as holding discussions with each actuarial team to understand the methods, assumptions, and conclusions of each study. Specifically, I considered the diagnostics and key assumptions related to actual claims emergence since the prior study compared to projected cashflows, survival ratio diagnostics by exposure (as defined below), payment patterns and the expected horizon for run-off payments, IBNR/case reserve ratios, and projected annual cashflows. I applied the Sentry participation percentages and commutation ratios to projected ultimate loss by reinsurance year to estimate unpaid claim amounts for the transferring reinsureds. I did not prepare an independent estimate of loss reserves as part of my work.

4.5.2 Comments on Loss Reserves

One diagnostic commonly used to assess the reasonability of asbestos and environmental reserves is the survival ratio. This ratio is calculated by dividing loss reserves by average annual payments. The survival ratio can be interpreted as the number of years that the current level of annual payments could be paid from recorded reserves. Actual payments are expected to continue for many years longer than the survival ratio measure, because annual payments are expected to decrease over time rather than continuing at current level.

A comparison of the survival ratios for the transferring liabilities to survival ratios for industry estimates of outstanding insured asbestos and environmental liability is presented in Table 6. Industry estimates are based on statutory annual statement data as of December 31, 2018 as prepared by AM Best. Although survival ratios are a common benchmark used to evaluate reserves for asbestos and environmental liability, there are weaknesses in comparing industry ratios to the specific exposure for the transferring liability. Survival ratios for NLIC are more than double the industry benchmark, indicating relatively higher reserve adequacy. However, the industry benchmarks include data from insurers writing primary layers of insurance coverage in which the insurance policy is triggered and begins to pay at lower thresholds. The ECRA pool provides reinsurance to insurance companies that wrote the primary insurance policies. I therefore expect the ECRA reinsurance coverage to be triggered at higher levels of loss and later in the timeline of payments than the industry data set. Since the ECRA reinsurance is expected to make payments later, on average, than primary insurers, it is not unreasonable that the survival ratio related to the transferring reinsureds is higher than the industry benchmark for all insured asbestos and environmental exposure.

Table 6
Comparison of Survival Ratios
($000s)

	Industry[2]		NLIC[3]
	Asbestos	Environmental	All Claims
Reserve	$18,400,000	$5,300,000	$2,845
Average Annual Payments (3 years)	$2,633,000	$639,000	$145
Survival Ratio	7.0	8.3	19.8

In addition to consideration of survival ratios, I gained comfort over the adequacy of loss reserves for asbestos and environmental exposure by reviewing the projected annual cashflows compared to historical annual payments and the expected horizon to fully pay all claims. Consistent with common industry models, claim payments for the asbestos and environmental exposure are expected to continue for thirty to forty-five years. I reviewed claim count and claim value averages for other mass torts claims as well as IBNR/case reserve ratios for all other exposures.

I concluded that the initial loss reserves for NLIC of $2.845 million as of December 31, 2019 to be reduced by payments through the transaction date appear reasonable based on my understanding of the methodologies used in the provided actuarial reserve studies, the reasonability of key assumptions and my review of reserve diagnostics.

4.5.2.1 Nature of ECRA Liability

Asbestos, environmental, and mass tort liabilities are long term in nature and the uncertainty related to the estimation of ultimate unpaid claims amounts may be increased relative to other property and casualty lines of business due to factors including

1. Technology advances, environmental regulatory changes, ownership and changes to the intended use of sites, jury decisions, court interpretations, legislative changes, changes in the medical condition of claimants, public attitudes, and social/economic conditions such as inflation.
2. Delayed information in reinsurance data compared to primary coverage and higher volatility in excess layers.

Alternate but still reasonable assumptions are tested to assess the sensitivity of loss reserve estimates resulting in low and high scenario estimates of unpaid claims. Because uncertainty in the estimation of unpaid claims cannot be eliminated, insurance companies hold capital which can be used to pay claims if ultimate claim values are higher than expected, with riskier loss exposure requiring higher held capital. In the context of this transfer, I analyzed the impact of the inherent variability in the loss exposure for the transferring reinsureds by testing adverse loss development scenarios as part of my assessment of NLIC's capital adequacy and solvency testing described later in this report.

4.5.3 Loss Adjustment Expense Reserves

The loss adjustment expense reserve proposed by NLIC of $57 thousand or 2% of unpaid claims estimates appears reasonable based on expense provisions common in reinsurance pricing and my understanding of the limited administration required of NLIC to review and process invoices from ETMC (rather than direct claims handling).

4.6 Policyholder Security

4.6.1 Approach to Solvency Assessment

Although the Act specifies a broad spectrum of criteria to be considered by the IE, the primary charge to the IE and to the

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[2] Best's Market Segment Report, October 17, 2019
[3] Reserve excludes $57 thousand of unallocated loss adjustment expense. Asbestos, environmental, mass tort and other losses combined.

Court is to assess whether the security position of policyholders that are affected by the IBT is materially adversely affected by the transfer. As previously discussed, the policyholders remaining with Sentry are not materially impacted by the transfer due to the small size of the transaction relative to Sentry's operations. NLIC has no policyholders prior to the transfer. My analysis of the impact of the transfer on policyholder security will therefore focus on the policyholder security of the transferring reinsureds. I first assessed policyholder security for the ECRA reinsureds prior to the transfer, when reinsured by Sentry, to establish a baseline security for the reinsureds and analyzed policyholder security after the transfer for comparison.

My approach to testing policyholder security included consideration of several measures of financial strength and testing of extreme loss and investment scenarios to quantify the impact of these unlikely events on the transferring reinsureds. Specifically, I considered

- Pro forma financial statements for NLIC at year-end 2020, 2021, and 2022 prepared by R&Q Group for a range of alternate loss and investment return assumptions.
- NLIC's Own Risk and Solvency Assessment (ORSA) documentation.
- Risk Based Capital ratios (RBC) for Sentry and NLIC as well as stress testing of NLIC ratios after the transaction.
- Scenario testing and reverse scenario testing for NLIC after the transfer to identify circumstances that could threaten policyholder security.
- Stochastic modelling of unpaid claims, loss adjustment expense, and overhead expenses to assess the probability of impairment to transferring policyholder interests before and after the transfer.

The purpose of the scenario testing and stochastic modelling is to evaluate the impact on policyholders if there is no further support from NLIC's parent, Randall & Quilter America Holdings Inc. NLIC is expected to have the ability to replenish capital through R&Q Group support after a significant capital event but further capital contributions are not contemplated in this testing, as such contributions are not guaranteed. Additionally, the stressed scenarios do not model the impact of regulatory intervention. I evaluated extreme scenarios against the criterion of meeting ECRA claim payments. In many of the extreme stress scenarios, surplus would fall below the Oklahoma minimum capital requirements and/or trigger regulatory intervention under the RBC framework. As discussed in the NLIC ORSA report, R&Q Group does intend to maintain the minimum required surplus in Oklahoma for NLIC. Although mitigating actions are not modelled for the purpose of evaluating this transfer, I would expect action from R&Q Group or the Commissioner for outcomes in which regulatory thresholds are triggered in order to mitigate risk on behalf of the policyholders and claimants. Policyholder security is likely to be higher than implied by the extreme scenarios discussed in this report as a result of supporting action by NLIC's parent and OID under adverse circumstances.

4.6.2 Pro Forma Financial Statements

The assuming insurer is required by the Act to submit pro forma financial statements showing the projected statutory balance sheet, results of operations and cash flows for the three years following the proposed transfer and novation. R&Q Group provided three years of pro forma financial statements for NLIC under the assumptions that loss and LAE reserve payments continue as projected in the actuarial reserve study prepared for ASC, investment return averages 3.25% annually, and annual overhead expense is $135 thousand. Prior to the transfer, NLIC has no insurance operations. Pro forma financial statements reflect the expected cashflows and operating results for the transferring reinsureds.

The expected annual investment return is based on the planned investment policy for NLIC to invest in short-term and long-term bonds rated NAIC 1, in compliance with Oklahoma regulations. Specifically, NLIC is initially planned to hold approximately $1.0 million in cash and $2.0 million in government bonds, with the remainder of assets in government allied securities. The actual investment earnings may vary from this planned rate, and I have tested the investment yield assumption in my analysis. Specific consideration of the impact of COVID-19 on investment yields and NLIC's investment policy is discussed in the following section.

Table 7
Pro forma Financial Statements
($000s)

	NLIC		
	2020	**2021**	**2022**
Assets			
Bonds	6,763	6,757	6,677
Cash/Cash Equivalents	1,000	1000	1,000
Total Admitted Assets	7,763	7,757	7,677
Liabilities			
Loss Reserves	2,705	2,551	2,402
Loss Adjustment Expense Reserves	51	46	41
Other Liabilities	3	32	22
Total Liabilities	2,759	2,629	2,465
Capital & Surplus	5,006	5,128	5,212
Reserve/Surplus Ratio	55%	51%	47%

Under NLIC's expected liability and investment assumptions, capital and surplus increases over the three-year period and compliance with Oklahoma minimum surplus requirements is maintained. Additionally, NLIC is expected to have a reserve-to-surplus ratio of approximately 50% over the three-year period. In other words, if claim payments are triple the current estimate, surplus funds, in conjunction with future investment income, would continue to be adequate to meet policyholder liabilities as they come due for payment. The expected reserve-to-surplus ratio for NLIC is slightly more conservative than the reserve-to-surplus ratio for Sentry at December 31, 2019 of 59%. This testing indicates a high level of financial strength and policyholder security over the three-year period.

4.6.3 Risk Based Capital

A common approach for monitoring insurance company capital adequacy is the RBC framework. This framework was established by the National Association of Insurance Commissioners (NAIC) to provide a capital adequacy standard that is driven by the risks of an insurance company and is standardized across states. The purpose of the framework is to aid insurance regulators in identifying insurance companies at risk of insolvency with the goal of early intervention. The framework is based on a formula, with inputs incorporating the various risks to which a company is exposed, which establishes the regulatory **minimum** capital that the company must hold to support its risks. The formula applicable to property and casualty insurers incorporates three main areas of risk: asset risk, underwriting risk, and credit risk. The framework also establishes four levels of capital, relative to the minimum capital established through the formula, which trigger responses from the company or the regulator.

1. Company Action Level- 200% of the ACL. At this capital level, the insurer is expected to work with the Commissioner to identify issues and propose a plan to take corrective action to reduce risk or increase capital.

2. Regulatory Action Level-150% of the ACL. At this capital level, the Commissioner may perform an examination in addition to the company's plan and order corrective action.

3. **Authorized Control Level (ACL)**- In the RBC framework, this is the minimum capital that a company must hold to support its risks. The ACL is calculated using the RBC formula. At this capital level, the Commissioner may place the insurer under regulatory control.

4. Mandatory Control Level- 70% of the ACL. At the mandatory control level, the Commissioner places the insurer under regulatory control or supervises the run-off of existing liabilities.

When an insurance company's capital falls below the thresholds established in the framework, regulatory intervention is triggered. A company would likely still have adequate assets to pay policyholder claims at the action levels and control levels because the framework is designed to identify insurance companies at risk of insolvency before an insolvency occurs.

Although higher RBC ratios (to ACL) indicate higher capital adequacy, the framework does not prescribe a capital level relative to ACL that is required or appropriate from a regulatory perspective. Many insurance companies select a target RBC ratio which is considered as an internal tool in managing capital relative to risk. Target ratios would differ by company reflecting management priorities and the specific circumstances of the company. For example, based on December 31, 2018 statutory annual statement data, mutual insurance companies in the property and casualty industry have an average RBC ratio of 4,594%. The average RBC ratio for all property and casualty companies, including mutual companies, is 616%. Mutual insurance companies cannot readily access private and public capital markets to raise capital and generally operate at higher capitalization (higher RBC ratios) as a result.

Because the RBC formula is a standardized measure of risk and capital, RBC ratios can be compared among insurers bearing in mind that the formula does not capture all risks faced by insurance companies nor the varying management priorities of different companies.

Historical RBC ratios for Sentry and planned ratios for NLIC are presented in Table 8. Consistent with general operating trends previously noted for mutual insurers, Sentry's RBC ratios of approximately 1200% indicate a higher level of capitalization than the NLIC's planned RBC ratio of 780%. However, ratios for both companies are above the industry average ratio for 2018 of 616%. As both companies operate with capital above the industry average, as measured by RBC, I would characterize both companies as well capitalized.

Table 8
Comparison of RBC Ratios
($000s)

	Sentry			NLIC		
	2017	2018	2019	2020	2021	2022
Total Adjusted Capital	$5,154,562	$5,430,149	$5,983,213	$5,006	$5,128	$5,212
ACL	439,342	448,102	495,214	641	606	572
Capital Ratio to ACL	1173%	1212%	1208%	781%	846%	911%

Stress testing of the total unpaid claim estimate, speed of claim payments, investment return, and general and loss adjustment expense assumptions do not reduce NLIC projected RBC ratios to any action level over the next three years. Based on my understanding of the long-term cashflows expected to pay the claims in full as well as the recent annual claim invoices to Sentry from ECRA, it appears unlikely that NLIC's RBC ratios would fall to action levels or control levels within a short timeframe like three years.

4.6.4 NLIC Own Risk and Solvency Assessment (ORSA)

Another perspective for assessing NLIC's risk is the Own Risk and Solvency Assessment report prepared by the R&Q Group. An ORSA is an internal process undertaken by an insurer or insurance group to assess the adequacy of its risk management and current and prospective solvency positions under normal and severe stress scenarios. Beginning in 2015, large and medium insurance companies are required to regularly perform an ORSA and file a confidential summary report with state insurance regulators.

In performing the ORSA, NLIC analyzed all relevant material risks that management could reasonably foresee (i.e., underwriting, credit, market, operational, liquidity, reputational risks, etc.) that could have an impact on its ability to meet its policyholder obligations after the transfer. In contrast to RBC monitoring, this assessment is tailored to NLIC. The

ORSA reflects NLIC's planned management strategy and a variety of key risks that are not fully incorporated in the RBC formula.

I reviewed NLIC's ORSA summary report alongside the company's stress testing and reverse stress testing. A reverse stress test is a stress test which identifies and quantifies the impact of scenarios and circumstances that would render the business unviable, in this case, a scenario under which the transferring reinsureds' claims could not be fully paid.

Through the ORSA, NLIC management identified risks and made qualitative assessments of those risks. The key risks identified by NLIC are emergence of latent claims or other significant increase to unpaid claims estimates and lower than expected investment returns. NLIC performed reverse stress testing for each of these key assumptions individually against testing criteria of 1) triggering the minimum capital requirement and 2) being unable to pay claims from available assets and capital, without any R&Q Group or insurance regulator intervention. In service of the IE charge to evaluate impacts to policyholders, I focused on testing to determine circumstances under which claims go unpaid. NLIC quantified failure to meet policyholder claims in two separate scenarios:

- Reserves increase to $11.1 million (nearly 4 times the current value) with failure occurring in 2064, or
- Investment returns fall to negative 4.6%, also failing in 2064.

Based on my review of the loss reserves described in the prior report section, I believe that ECRA claims for the transferring reinsureds are unlikely to reach $11.1 million. Unpaid claims of $11.1 million would imply that NLIC would make annual payments at current levels for the next 76 years, approximately 10 times the reserve levels implied by industry survival ratios presented in Table 6. Similarly, it is my opinion that it is unlikely that investment returns would fall to negative 4.6% and remain there for forty-four years.

Each of these individual circumstances is sufficiently unlikely that the scenarios are immaterial to the transferring reinsureds. However, it is possible that both adverse loss development and lower investment returns could be realized. In my work, I tested the interplay of the risk factors as discussed in the following sections.

An additional risk discussed by NLIC is the risk that the strategic business plan for NLIC to consolidate run-off loss portfolios through the Oklahoma IBT mechanism is not viable. In my review, I have projected cashflows and financial strength assuming that no further transfers are successful. If and when further transfers are pursued, the transactions will be evaluated through the process outlined in the Act. I have, however, assumed that cost saving measures will be implemented to manage general administration expenses incurred by NLIC if no further transfers are achieved.

4.6.5 Scenario Testing

I modeled cash flows over the projected run-off of the Sentry ECRA unpaid claims for NLIC to determine if policyholder obligations are expected to be met under various stressors of key assumptions and to better understand the interplay between the key assumptions over the 30-45 years of projected claim payments. The cashflow models project annual claim payments and expense costs as well as investment income and NLIC's changing asset mix as assets are liquified to pay claims. Cashflows from stressed scenarios are compared to the expected cashflows based on estimated unpaid claims of $2.895 million (as of September 30, 2019), average annual investment return of 3.25%, and overhead expense beginning at $135 thousand annually. The key assumptions stressed are

- the amount of total unpaid claims, for which I tested various levels of pervasive adverse development recognized at the triennial actuarial reviews performed for ETMC as well as larger loss reserve increases recognized 10-20 years after the transaction; and
- investment return, for which I assessed lower average annual returns over the claims run-off period of 2.5% and 1.5%. My work also included scenarios with investment return beginning at 0% and increasing to the expected annual return of 3.25% over time. These scenarios are meant to model the impact of the COVID-19 pandemic which has reduced investment returns in 2020.

In my view, based on the historical loss reserve changes for ECRA, the most likely adverse scenarios would be pervasive adverse reserve development of between 10%-25% at regular actuarial updates for ETMC. Policyholder obligations are expected to be met for these scenarios at investment returns of 3.25% and 2.5%. These tests represent extreme stresses to estimates of unpaid claims, but all policyholder obligations are expected to be met under total unpaid claims scenarios

of approximately $10.2 million (more than triple starting loss reserves) assuming the target investment return is achieved. At a lower investment return of 2.5%, all policyholder obligations would be met under unpaid claims scenarios of approximately $7.9 million (a 175% increase over starting reserves). At an investment return of 1.5%, I expect NLIC to meet policyholder obligations through 2062 assuming ECRA claims up to $7.3 million (a 150% increase over starting reserves).

Beginning in March 2020, the economic impact of the COVID-19 pandemic has significantly reduced investment yields. At the time of this report, the pandemic and economic upheaval are ongoing. If low investment yields persist, NLIC may not be able to achieve the planned investment return from the planned asset profile, and I considered the impact on policyholder security if historically low returns persist following the transfer. If investment returns start at 0% in 2020 and increase by 0.25% increments to 3.25% in 2033, policyholder obligations could still be met under the pervasive adverse development scenario with 20% reserve increases at 3-year intervals (an increase to loss reserves of 167%) but would fall short under a scenario of pervasive 25% increases (an increase to loss reserves of 257%). This investment return scenario represents a long-term economic depression scenario which might threaten the viability of many insurance companies. All policyholder obligations would be met under claims scenarios of approximately $7.6 million (an 167% increase to starting reserves).

In my opinion, a scenario with both extreme adverse loss reserve development and a long-term depression on investment returns is sufficiently unlikely that it is immaterial to the ECRA reinsureds.

4.6.6 Stochastic Assessment of Solvency

My work included simulation of total assumed ECRA unpaid claims for NLIC to assess the likelihood that NLIC will not have sufficient capital to meet the assumed ECRA liabilities. I compared total simulated claims and other expense costs, at present value, to the planned starting assets of NLIC to assess the probability of insolvency and to evaluate the change in policyholder security before and after the proposed transfer.

The amount of assumed ECRA liabilities (over the life of the run-off) that would not be paid is calculated for 10,000 simulated loss and expense values. The estimated deficit is reviewed at the extreme high end of the simulated results and compared to the 10-year default rates of 0.51% for A+ rated companies (consistent with the AM Best rating for the Sentry Insurance Group) compiled from historical data by AM Best[4]. Simulated total loss and expense amounts are discounted at a range of investment return assumptions.

At the NLIC expected investment return, simulations indicate that the likelihood that NLIC cannot honor policyholder payments is less than 0.1% and, therefore, below the 0.51% default rate benchmark for A+ rated insurance companies. The simulated breakage scenario, in which there would not be adequate funds to meet the claims of the ECRA reinsureds, represents approximately $12.5 million of claims payments and $3.3 million of claims handling and overhead expense with surplus expected to be exhausted after 2060 as compared to the current estimate of total future claim payments of $2.9 million.

The simulation approach is an informative perspective in considering the likelihood of the extreme scenarios that could result in NLIC being unable to meet payment obligations to the ECRA reinsureds. However, the distributions selected to simulate loss scenarios reflect judgment and cannot be tested against actual data. Simulation results at the tail of the distribution are highly volatile. Therefore, my conclusions are based on my interpretation of the tail results of the simulation without adopting specific loss and expense estimates at the highest percentiles of loss distribution. In other words, I am satisfied that the likelihood that NLIC would not be able to pay the full ECRA claim amounts is small enough that it is immaterial to the ECRA reinsureds. I have not quantified a specific confidence level at which ECRA policyholders would be harmed.

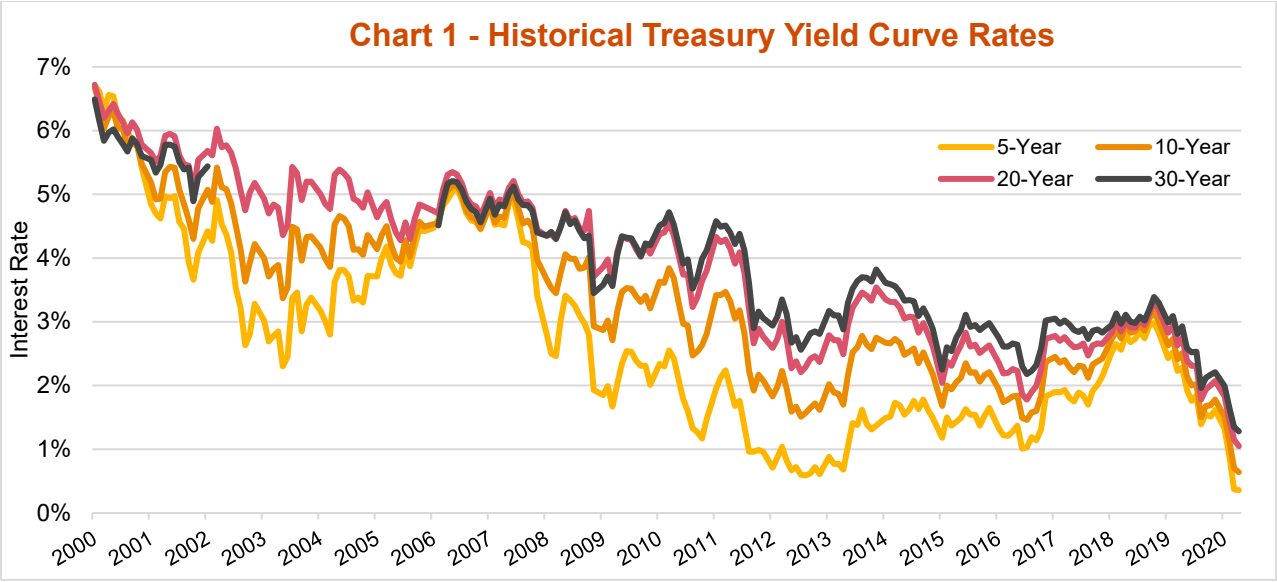
[4] Insurance company default rates by financial strength rating as summarized in the AMB Rating Disclosure Form for Sentry Insurance a Mutual Company. http://ratings.ambest.com

4.7 Other Considerations

4.7.1 COVID-19 and the Economy

Prior to the transfer, NLIC holds assets of $5.0 million, with investments held in cash and short-term deposits, such that NLIC meets the $5.0 million minimum surplus requirement for Oklahoma. Upon completion of the transfer, NLIC's assets will be invested according to the R&Q Group investment policies and will meet the investment code of Oklahoma. NLIC's investment plan focuses on a mix of short-term and long-term bonds.

In response to the COVID-19 economic stimulus packages offered by the United States Federal Government during the spring of 2020, bond rates have declined significantly as illustrated in the graph below. At the time of this report, it is not clear how long pandemic lock-down measures and the associated impact on the economy will persist. NLIC plans to monitor investment returns subsequent to the transfer with cautious allocations to fixed income assets as opportunities arise.



Given the observed impact of the pandemic on investment returns and the ongoing uncertainty around the duration of disruption to the global economy, I have tested the impact on policyholder security of persistent lower investment yields through 2027 and 2033 as previously discussed in the Scenario Testing section of this report. I also assessed the likelihood of insolvency assuming persistent lower investment yields through 2033 in my simulations of claims and other expenses and found the likelihood to be less than AM Best estimated 10-year default rates for A+ rated companies. On the basis of this testing, I do not believe that the ongoing bond market depression related to the COVID-19 pandemic has a material impact on policyholder security if the transfer is approved and completed.

4.7.2 Policy Administration

The pool members appointed ETMC, the ECRA pool manager, to handle claims and reinsurance settlements. ETMC provides billing statements and outstanding case reserve and incurred but not reported (IBNR) reserve reports to the pool members at intervals agreed to by ETMC and the ECRA member. These documents containing the data for Sentry's activity under its ECRA participation are distributed to Sentry and ASC quarterly. Since the 2016 reinsurance agreement between ASC and Sentry, ASC has paid billing statements related to the transferring liabilities. After the transfer, claims handling and billing will continue to be managed by ETMC but NLIC will receive the ETMC monthly reporting documents and remit payments for invoices, as NLIC will have 'stepped into the shoes' of Sentry. Because NLIC and ASC have common operational functions within the R&Q Group, there will be no impact to policy administration or claims handling practices for billing statements and reserve reports provided by ETMC.

There will be no impact to policy administration or claims handling practices for the claims submitted by ECRA reinsureds to ECRA and its manager, ETMC, as a result of the transfer.

4.7.3 Corporate Governance

I have reviewed NLIC's corporate governance structure which follows the system of governance established for the R&Q Group. NLIC will be governed by a Board of Directors. The NLIC Board will designate the formation of an Audit Committee at an appropriate point prior to the transaction. NLIC may also have an Underwriting Committee, depending on the flow of business to NLIC. Otherwise, underwriting supervision will be provided by the R&Q Group. All operational functions including claims, reinsurance, finance, actuarial, information technology, human resources, internal audit, risk management (ERM), legal and corporate secretarial will be performed by R&Q Group resources. At all times the NLIC Board retains oversight and responsibility of all matters relevant to NLIC.

NLIC management benefits from R&Q Group's knowledge of ECRA through its ownership of ETMC since 2010. R&Q Group management has had oversight of the Sentry ECRA liabilities since the reinsurance contract between Sentry and ASC was executed in December 2016. I am satisfied that NLIC has proper board and management oversight and expertise to manage the transferring business after the transfer.

4.7.4 Reinsurance and Other Funds

The only reinsurance applicable to the transferring ECRA liability, issued by the NLIC affiliate ASC, will be commuted immediately upon completion of the transfer. There are no Guaranty Associations or State Insurance Funds that apply to the transferred business. Therefore, it is not necessary for me to consider the impact on other entities beyond Sentry and NLIC.

4.7.5 Priority of Claims

If the transfer is approved, in the unlikely event that capital falls to regulatory control levels, claims by the transferring reinsureds would have highest priority as NLIC's only insurance liabilities. Whereas before the transfer, as reinsurance policyholders, the transferring ECRA reinsureds would stand behind Sentry's direct policyholders in precedence of collections for claims payments in the event of an insolvency.

4.7.6 Communication Plan

The Act requires that the Transferring Company inform the policyholders and other interested parties of the hearing set by the Court to consider the transfer as well as publishing the plan for the transfer. Notice must be provided to all policyholders of the Transferring Company unless otherwise approved by the Commissioner.

Sentry plans to notify interested parties of the planned transfer through a variety of communication methods:

- Direct communication to ECRA reinsureds from calendar policy years 1972 through 1981, the years that Sentry assumed risk from the pool.
- Direct communication to ASC, the NLIC affiliate providing 100% reinsurance of the transferring liabilities beginning in 2016 and through the effective date of the transfer.
- Direct communication to insurance regulators for all fifty States in which Sentry is licensed.
- Public notice through advertising in the Wisconsin State Journal within 15 days after the IBT hearing date is set.
- Displaying details of the transfer plan and this report on a dedicated website.

Sentry is requesting a waiver from the Commissioner regarding the requirement to individually notify each of the policyholders remaining with Sentry after the transfer. As previously discussed, the transferring liability ($0 net of reinsurance) is immaterial to Sentry. Given the onerous level of effort and expense required to notify approximately 193,000 in force policyholders plus prior policyholders with active and emerging claims, Sentry does not believe that direct, individual notification is valuable to the non-transferring policyholders. Sentry's current and prior policyholders will be notified of the transaction through advertising of the IBT in the Wisconsin State Journal, Sentry's state of domicile and primary focus of business.

Sentry will directly notify each of the 557 insurers ceding to ECRA during the years that Sentry participated in the pool. The ECRA pool has been in runoff for 37 years and many of these ceding companies are no longer active with the pool. NLIC, Sentry, and ETMC reviewed the cedent details from the ETMC systems and identified 283 cedents without active claims and with reinsured risk that is not expected to result in late emerging claims (such as property insurance). These "inactive" cedents are not likely to currently be managing reinsurance relationships that are more than 37 years old and

may not value the notification nor choose to participate in the IBT comment period. However, after conversations with OID, Sentry has elected to directly notify each of the cedents in compliance with the Act. The remaining 274 cedents have active claims or are reinsured for liability policies which may have new claims despite the long period of time that the pool has been in run-off. Current contact details may not be available for inactive cedents. Sentry, NLIC, and ETMC will research current mailing addresses for all cedents through general internet searches, AM Best Rating Services and other industry organizations, and through engagement of an external research company.

Direct notification of the transferring reinsureds will be made through certified first-class mail, postage pre-paid, within 15 days of receipt of the hearing scheduling order. The letter to the impacted ECRA cedents includes a summary of the transfer and its impact on the cedents rights, procedures and the deadline for submitting comments and objections to the transfer, explanation that the individual cedents will not have the opportunity to opt out of the transfer if it is approved by the Court, and required logistics for the hearing with contact information of both companies. Supplementary information will be included with the notice, including: a summary of the IBT plan, a summary of the IE's report, a "Questions and Answers" summary, and the legal notice providing details of the hearing.

ASC and state insurance regulators will be notified with a similar communication through first-class, postage pre-paid mail.

All the direct notices and the public notices will provide information on accessing the dedicated website for the transfer.

I have reviewed Sentry's strategy for communication of the planned IBT and the court hearing to policyholders, the reinsurer, and insurance regulators. I believe that the communication plan is reasonable and appropriate for the various parties to be notified.

5 Conclusions

Section 5: Conclusions

5.1 Overall Conclusions of the IE

I have considered the proposed transfer and the likely effect of the transfer on the Sentry policyholders who will not be transferred as well as on the ECRA reinsureds whose liabilities will be transferred. As noted elsewhere, there are no current policyholders of NLIC.

My assessment **focused on the impact to policyholder security** but also considered

- the impact to claims handling and the policyholder's experience in interacting with its insurer,
- the impact of the transfer on reinsurers of the transferring policyholders, state guaranty funds and state insurance funds, and
- management expertise and corporate governance at the assuming insurer.

Policyholder security is compared on the day of the transaction (after the transfer) to policyholder security on the day before the transfer. If policyholder security, for either of the two groups of policyholders, is materially reduced at the time of the transaction and as a result of the transfer, policyholders are deemed to be adversely impacted

I have concluded that the transfer does not materially, adversely impact either the Sentry policyholders or the ECRA reinsureds in the business being transferred.

5.2 Conclusions on Policyholder Security

5.2.1 Policyholders Remaining with Sentry

In my opinion, the transaction will have no discernable impact on the policyholders and claimants remaining with Sentry. I reached this conclusion considering the small size of the transferring liabilities (net $0 loss reserves) relative to the underwritten liability for policyholders remaining with Sentry along with the fact that there will be no additional assets transferred to NLIC by Sentry beyond the $3.5 million originally paid as reinsurance premium to ASC.

5.2.2 Transferring Reinsureds

In my opinion, the transferring reinsureds could have an increased likelihood of claims going unpaid as a result of the transfer but this possibility is sufficiently remote as to be immaterial. My conclusions are based on consideration of the following positive and negative potential effects of the transfer.

There is no material difference between loss reserve estimates of the transferring reinsured liabilities for Sentry and NLIC. Reserves to be recorded by NLIC after the transfer for unpaid losses and associated expense for claims handling appear reasonable based on my understanding of the methodologies used in the provided actuarial reserve studies, the reasonability of key assumptions and my review of reserve diagnostics.

Prior to the transfer, the ECRA reinsureds have a high level of policyholder security as liabilities are ultimately guaranteed by Sentry if the ASC reinsurance were to be uncollectible. While reinsured by Sentry, the ECRA reinsureds benefit from coverage by a larger, diversified insurance company. As a smaller company insuring predominantly asbestos and environmental exposure, NLIC has greater risk from adverse development in A&E without the stabilizing benefit of diversification in its insurance risk. In my opinion, policyholder security would remain strong after the transfer but could be reduced in comparison to the stability provided by the larger insurer.

As reinsurance policyholders, the transferring ECRA reinsureds would stand behind Sentry's direct policyholders in precedence of collections for claims payments in the event of an insolvency. Whereas, if the transfer is approved, claims by the transferring reinsureds would have highest priority as NLIC's only insurance liabilities.

Scenario testing of extreme adverse claim development over the expected thirty to forty-five-year payment period,

scenarios with lower-than-expected investment yields, and modeling to examine the likelihood of NLIC being unable to pay ECRA reinsured claims indicate that the likelihood that NLIC cannot honor policyholder payments is below the 0.51% default rate benchmark for A+ rated insurance companies such as Sentry. Scenarios that reflect extreme adverse development of the claims liabilities or extreme adverse investment yields over a prolonged period of time, without any management or state regulatory intervention, can be constructed which impair NLIC's capacity to make payments when due. These scenarios, however, are so extreme as to be remote. Based on this testing, I have concluded that the likelihood of the transferring ECRA reinsureds being adversely impacted by the transfer is sufficiently small as to be immaterial.

5.3 Comments on Other Considerations

The planned restructuring of Sentry Insurance a Mutual Company to a Mutual Holding Company and a Stock Insurance Company effective January 1, 2021 is not expected to have a discernible impact on the financial strength of Sentry or on the administration of claims for the transferring ECRA reinsureds. No dividends would be paid to the ECRA reinsureds if the policies were to remain with Sentry through the January 1, 2021 effective date of the restructure. Therefore, I do not consider the planned restructuring to be a material consideration for the proposed transfer.

The reinsurance provided by ASC will be commuted immediately upon completion of the transfer. There are no Guaranty Associations or State Insurance Funds that apply to the transferred business.

The business being transferred will continue to be administered by ETMC, the same agency that is currently managing and handling all ECRA claims. There will be no change to the transferring ECRA reinsureds' policyholder experience as a result of the transfer.

NLIC management has had oversight of the Sentry ECRA liabilities since the reinsurance contract between Sentry and ASC was executed in December 2016. Having reviewed NLIC's corporate governance structure, I am satisfied that NLIC has proper board and management oversight and NLIC management has appropriate expertise to manage the transferring ECRA reinsurance business after the transfer.

I also considered the strategy to communicate the IBT plan and hearing information to the Sentry policyholders, transferring ECRA reinsureds, and other stakeholders as required by the Act. I believe that the communication plan is reasonable and appropriate for the various parties to be notified.

6

Disclosures & Limitations

Section 6: Disclosures and Limitations

6.1 Qualification of the IE and the PwC Team Leader

Independent Expert, Melissa Holt, Director and the peer reviewer for this engagement, Christine Kogut, Principal, are members of the American Academy of Actuaries and Fellows of the Casualty Actuarial Society and meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained herein.

6.2 Reliance on Company Data and Information

The data used in this analysis were prepared by and are the responsibility of the Transferring and Assuming Companies. PwC and the IE assume no responsibility and make no representations with respect to the accuracy or completeness of the information provided. While the IE work may involve analysis of accounting records and other financial information, as well as inquiries of and discussions with management, the IE engagement does not include an audit in accordance with generally accepted auditing standards. If the data or explanations provided are inaccurate or incomplete, the IE conclusions may differ materially from those contained in this report. To the extent that any changes are noted that could potentially have a material impact on the analysis, it is the responsibility of the Transferring and Assuming Companies to notify the IE and PwC of these changes so that they may be properly reflected and so that the Commissioner and the Court may evaluate the materiality of any differences for the purpose of considering the IBT. The IE reviewed the data for reasonableness and consistency among the data sources and did not find any material issues with the data that would cause me to question its appropriateness for purpose.

The claims and financial data used for this analysis are evaluated as of August 2019 and December 31, 2019. The IE and PwC continued to receive information from the Companies through May 27, 2020; however, none of this additional claim information reflects activity between the valuation date of the data and the date it was provided. Additional information related to the planned transfer, pro forma financials, communication plan and changing economic conditions reflect activity through May 27, 2020, the review date of this report.

I have also referenced information and data from insurance industry sources such as the A&E benchmarking information compiled by AM Best using data through December 31, 2018 and industry loss reserve information for workers compensation and commercial liability lines based on SNL Financial data compiled by PwC.

6.3 Limitations

The evaluation of loss and loss adjustment expense reserves requires the estimation of loss development over an extended period of time. During this period, numerous factors will affect the ultimate settlement value of claims. Projections of future liabilities are subject to large potential errors of estimation, due to the fact that the ultimate disposition of claims incurred prior to the evaluation date, whether reported or not, is subject to the outcome of events that have not yet occurred. Examples of these events include, but are not limited to, jury decisions, court interpretations, legislative changes, changes in the medical condition of claimants, public attitudes, and social/economic conditions such as inflation. In assessing the actuarial central estimate of future unpaid claim costs and the reasonability of the NLIC estimate for loss reserves after the transfer, the IE assumed that historical trends will continue into the future and has not anticipated any extraordinary changes in the legal, social, or economic environment which might affect the claim experience. The central estimates make no provision for the future emergence of new classes of losses or types of loss not sufficiently represented in the Companies' historical databases or which are not yet quantifiable. Although the IE analysis was performed according to generally accepted actuarial practices and standards, there can be no guarantee that the actual losses will not vary materially from the estimates within this report, due to the uncertainty inherent in loss projections.

The analysis and models developed for the capital adequacy analysis utilize methodologies and assumptions that are appropriate to measure specific financial risks of NLIC, based on my understanding of the transferring ECRA liabilities and the expected NLIC capital and expenses at the time of the transfer. However, the extreme tail end of a distribution of potential financial results is difficult to measure with certainty due to the lack of relevant empirical experience and potential for emerging ECRA liabilities to differ from historical claims. While scenario tests can provide some validation, there always remains a possibility that actual financial uncertainty may deviate from this assessment. The aggregation of various financial risks requires correlation assumptions between risks. While assumptions were formulated according to generally accepted actuarial methods, there can be no guarantee that the actual events will not vary significantly from the assumptions used in this assessment. The quantification of the capital events in the model reflects a sixty-five-year time

horizon. While NLIC may have sufficient capital to fund the tested capital events, there always remains a possibility that multiple capital events may occur in consecutive years. NLIC is expected to have the ability to replenish capital through R&Q Group support after a significant capital event as discussed in its ORSA capital risk analysis but further capital contributions are not contemplated in this testing, as such contributions are not guaranteed. Furthermore, the capital events developed do not contemplate any substantive changes in the legal, tax and Oklahoma regulatory environments that NLIC currently operates within.

Claims for the transferring ECRA reinsureds, with coverage in run-off since 1982, are not expected to be impacted by COVID-19 other than temporary delays in claims handling due to mandated business and government shutdowns. However, in the financial environment at the time this report is signed, significant volatility exists in the financial markets due to the COVID-19 virus impacting prospective investment risk and overall return. Although the IE analysis includes consideration of various scenarios testing the impact of investment risk and overall return on NLIC cashflows, there can be no guarantee that the investment returns and cashflows will not vary materially from the estimates within this report, due to the uncertainty inherent in the changing pandemic conditions and US and global financial markets.

The IE Services do not include the provision of legal, accounting, tax, or investment advice, and PwC makes no representations regarding questions of legal interpretation.

Appendices

Appendix A: Glossary of Terms

A&E	Insurance liabilities arising from the use of Asbestos products and Environmental pollution
Actuarial Central Estimate (ACE)	Actuarial Central Estimate is an estimate that represents an expected value over the range of reasonably possible outcomes. The actuarial central estimate of the reserve does not include margins for future adverse or favorable development in the liability.
Act	Oklahoma Insurance Business Transfer Act, 36 Okla. Stat. §§ 1681-1688. The Act that governs the transfer.
ALAE	Allocated Loss Adjustment Expense relates to claims handling expenses that are assigned to specific claims. ALAE typically includes expenses such as legal expenses and expert witness fees. Also known as defense and cost containment expense (DCC).
AM Best Company	AM Best Company is a credit rating agency specializing in the insurance industry. Best's ratings summarize its opinion on an insurance company's ability to pay claims, debts, and other financial obligations.
ASC	Accredited Surety and Casualty Company, Inc.
Asset Risk	The measure of an asset's default potential or market value fluctuation.
Capital Adequacy	Funding required of a risk financing vehicle, such as an insurance company, to meet the liabilities insured and an additional amount commensurate with the risk that these liabilities deteriorate.
Cedent	A cedent is a party in a reinsurance contract who passes financial obligation for certain potential losses to the reinsurer in exchange for a reinsurance premium. In this transaction, the term cedent primarily refers to the insurance companies that transferred risk to the ECRA pool through the purchase of reinsurance.
Commutation	The cancellation or dissolution of a reinsurance contract in which there are profits or losses to be allocated.
Court	District Court of Oklahoma County
Credit Risk	The risk of a change in value due to actual credit losses deviating from expected credit losses due to the failure to meet contractual debt obligations.
Deterministic Models	In deterministic models, the outputs of the model are specified by the initial assumptions. The assumptions are varied to study the impact on the model output.
ECRA	Excess and Casualty Reinsurance Association
Effective Date	The date when the Transfers shall become effective, expected to be fall 2020, or such other date as may be specified in court order approving the Insurance Business Transfer.
ETMC	Excess and Treaty Management Corporation
External Reinsurance	Reinsurance provided by a company outside the insurer group of affiliated

	companies.
Guaranty Associations	State-sanctioned organizations that protect policyholders and claimants in the event of an insurance company's impairment or insolvency.
IBNR	Incurred But Not Reported reserves, as used in this report, include losses on claims that are • Incurred but not yet reported (incidents that have occurred but have not yet been reported as claims); • Incurred but not enough reported (IBNER, or future development on case reserves for known claims); • Claims in transit (incidents incurred and reported, but not yet recorded by the insurer or reinsurer); and • Closed claims that will be reopened.
IBT	Insurance Business Transfer
IE	Independent Expert, the expert required to opine on an insurance business transfer, in this case Melissa Holt.
Insolvency	The NAIC considers an insurer insolvent if a state insurance commissioner has taken legal action to place the insurer into liquidation, rehabilitation, or conservatorship. In most states, when an insurer is placed into receivership, the state commissioner of insurance is appointed its statutory receiver.
Insurance Pool	A group of insurers or reinsurers through which particular types of risks are underwritten, with premiums, losses, and expenses shared in agreed ratios.
Insurance Risk	The risk that an insured event will occur, requiring the insurer to pay a claim.
Intercompany Pooling	Insurance risks are underwritten directly by each company in the pool and then premium and losses from each of the companies are ceded to the lead company. The pooled insurance risk is then ceded back to each company at an agreed percentage of the whole.
Internal Reinsurance	Reinsurance provided by a company within the insurer group of affiliated companies.
LAE	Loss Adjustment Expenses are expenses incurred in settling and investigating claims and include both ALAE and ULAE.
LDF	Loss development factor.
Liquidity Risk	The risk that an insurance company may be unable to meet short term financial demands. This usually occurs due to the inability to convert a security or hard asset to cash without a loss of capital and/or income in the process.
Loss Reserve to Surplus Ratio	A common measure of insurer financial strength calculated as the ratio of insurance company loss and loss adjustment expense reserves to insurer surplus. Lower reserve to surplus ratios indicate a higher level of capitalization and policyholder security.
Loss Reserves	Monies held by insurance companies to pay the estimated current and future claim liabilities assumed by the insurer through insurance and reinsurance contracts. Also known as Unpaid Claim Liability.

Market Risk	The risk of changes in the value of an investment caused by volatilities in market prices.
Mass Tort	A mass tort is a type of civil action involving numerous plaintiffs with similar claims against one or a few defendants in state or federal court. Mass torts most often are filed by individuals who have suffered physical or financial injury because of the negligence or misconduct of a corporation.
Mutual Insurance Companies	An insurance company that is owned by policyholders (members). The sole purpose of a mutual insurance company is to provide insurance coverage for its members and policyholders, and its members are given the right to select management.
NAIC	The National Association of Insurance Commissioners (NAIC) is the U. S. standard-setting and regulatory support organization created and governed by the chief insurance regulators from the 50 states, the District of Columbia and five U. S. territories. Through the NAIC, state insurance regulators establish standards and best practices, conduct peer review, and coordinate their regulatory oversight.
NLIC	National Legacy Insurance Company
Novation	An agreement to replace one party to an insurance policy or reinsurance agreement with another company from inception of the coverage period. The novated contract replaces the original policy or agreement.
OID	Oklahoma Insurance Department
Operational Risk	Risk of a change in value caused by the fact that actual losses, incurred for inadequate or failed internal processes, people and systems, or from external events (including legal risk), differ from expected losses.
ORSA	Own Risk and Solvency Assessment is an internal process undertaken by an insurer or insurance group to assess the adequacy of its risk management and current and prospective solvency positions under normal and severe stress scenarios. ORSA applies to any individual U. S. insurer that writes more than $500 million of annual direct written and assumed premium, and/or insurance groups that collectively write more than $1 billion of annual direct written and assumed premium.
PwC	PricewaterhouseCoopers LLP PwC refers to the US member firm or one of its subsidiaries or affiliates and may sometimes refer to the PwC network. Each member firm is a separate legal entity. See www.pwc.com/structure for further details.
R&Q	Randall & Quilter America Holdings, Inc
R&Q Group	Randall & Quilter Investment Holdings
RBC	Risk Based Capital framework
Regulators	In this transaction, the regulators reviewing the transfer are the Oklahoma Insurance Department and the Wisconsin Office of the Commissioner of Insurance. However, insurance regulators in all fifty states will be notified about the proposed transfer before the hearing.
Reputational Risk	The risk that negative publicity regarding an institution's business practices will lead to a loss of revenue or increased litigation. An institution's reputation, particularly the trust placed in the organization by its customers, may be damaged due to perceived or actual breaches in its ability to conduct business ethically, securely, and

	responsibly.
Required Capital	Minimum amount of funds that insurance and reinsurance companies are required to hold by the Regulators.
Reserve Risk	The inherent risk in reserve estimates caused by the uncertainty in estimating future claims.
Run-off	An insurer that is in run-off is not writing any new business but will continue to administer and pay claims for existing policies.
Sensitivity Testing	Sensitivity testing is an approach to financial models that determines how target variables are affected based on changes in other variables.
Sentry	Sentry Insurance a Mutual Company
SNL Financial	**SNL Financial** offers the collection and standardization of corporate, financial, and mergers and acquisitions data serving the banking, insurance, real estate, energy, media, and communications industries worldwide.
Spread Risk	The risk of a change in value due to a deviation of the actual market price of credit risk from the expected price of credit risk.
State Insurance Fund	State-owned and operated organizations that write workers compensation insurance.
Statement of Actuarial Opinion	An opinion on an insurance company's loss and loss adjustment expense reserves issued by a qualified actuary, appointed by the insurance company. The opinion is filed with insurance regulators to meet regulatory requirements. General guidance for the opinion is provided by the NAIC with specific requirements determined by state law or regulation.
Stochastic Models	Stochastic models possess some inherent randomness. The same set of parameter values and initial conditions are used to generate a set of varied output, typically reflecting fluctuation observed in historical data.
Stock Insurance Company	A stock insurance company is a corporation owned by its stockholders or shareholders, and its objective is to make a profit for them. Policyholders do not directly share in the profits or losses of the company.
Surplus	The amount by which an insurer's assets exceed its liabilities.
Survival Ratio	The number of years that current reserves will suffice ("survive") if average annual future payments equal average annual current payments.
TPA	A Third-Party Administrator is a company that provides operational services such as claims processing and employee benefits management under contract to another company. Insurance companies and self-insured companies often outsource their claims processing to third parties.
ULAE	Unallocated Loss Adjustment Expenses relate to expenses that are not directly attributable to specific claims (e. g. claim department overhead or third-party administrator expenses). Also known as Adjusting and Other Payments (AOP).
Underwriting Risk	Risk of loss assumed by insurers and reinsurers. It can take the form of underestimated liabilities from unpaid business written in past years (i.e., applying to expired policies) or underpriced current business (i.e., unexpired policies).

Unpaid Claim Liability	Reserves held for claims that have been reported but are not settled and paid. Also known as Loss Reserves.

Appendix B: Independent Expert Curriculum Vitae

Melissa Holt

- Melissa is a director in PwC's Property/Casualty Actuarial Services (AS) practice based in Atlanta with 20+ years at PwC.
- Melissa serves a variety of insurance clients, including large domestic and global insurers with common property casualty coverages such as workers compensation, commercial liability, products, warranty, and also including asbestos, environmental and mass tort issues. Melissa also provides actuarial consulting to captive insurance companies in the healthcare and energy sectors.
- She reviews loss and LAE reserves, both net and gross with respect to reinsurance, supporting the PwC audits of numerous insurers and reinsurers, of a wide range of sizes, with US as well as international exposures and reserves at varying levels of adequacy. These reviews included all major classes of business with both commercial and personal lines.
- Melissa provides reserving advice in support of Statements of Actuarial Opinion for both small and large insurance companies.
- Ms. Holt advises companies on captive insurance company formation with a focus on establishing the premium through an actuarial analysis as part of a team of legal and tax professionals that works through the entire process associated with the establishment of a new captive intended to segregate the liabilities or establish a captive to provide on-going insurance coverage.
- Melissa holds a BS degree in Mathematics from Auburn University and a MS in Statistics from Florida State University. Melissa is a Fellow of the Casualty Actuarial Society and is a Member of the American Academy of Actuaries.

Appendix C: Key Sources of Data

C.1 Company Information and Financials

Sentry Annual Statements from Year-End 2018 and 2019

Sentry Opinion Documents from Year-End 2018 and 2019

Description of the Planned Restructure of Sentry Insurance a Mutual Company

Accredited Surety and Casualty Company's Quarterly Statements as of September 30, 2019

R&Q Group System of Governance from 2018

R&Q's Corporate Structure Diagram

NLIC's Summary of Systems, Governance and Controls Processes

NLIC Certificate of Incorporation

NLIC Plan of Operation

C.2 Transfer Details

IBT Impact on Policy Administration and Claims Handling

Assessment of Changes in Regulatory Requirements from WI to OK

Confirmation of Transaction Sponsor

Preliminary Approval Letter from Wisconsin Office of the Commissioner of Insurance

IBT Draft Plan Document and Timetable

IBT Draft Communications Plan and Policyholders Notice

Wisconsin Office of the Commissioner of Insurance Non-disapproval Letter dated 9/21/2020

Draft Petition for Implementation of Insurance Business Transfer Plan

C.3 Reserve Support

ASC ECRA Payment History Net of Commutations

ECRA Actuarial Reports from Milliman as of 12/31/2015 and 8/31/2019

ASC Assumed, Ceded, and Net Position of Sentry's Portfolio as of 9/30/2019

ASC Actuarial Reports from Willis Towers Watson as of 12/31/2018 and 12/31/2019

ECRA Year-end Reporting Documents from ETMC for Sentry as of 12/31/2019

C.4 Capital Support

National Legacy Insurance Company Risk and Capital Assessment (ORSA)

NLIC's Investment Strategy

NLIC Pro Forma Financial Projections for 2020, 2021, and 2022

NLIC Capital Testing Scenarios for 2020, 2021, and 2022

Sentry provided research and discussion of RBC ratio statistics for mutual companies compared to the P&C industry as a whole, based on 12/31/18 annual statement data.

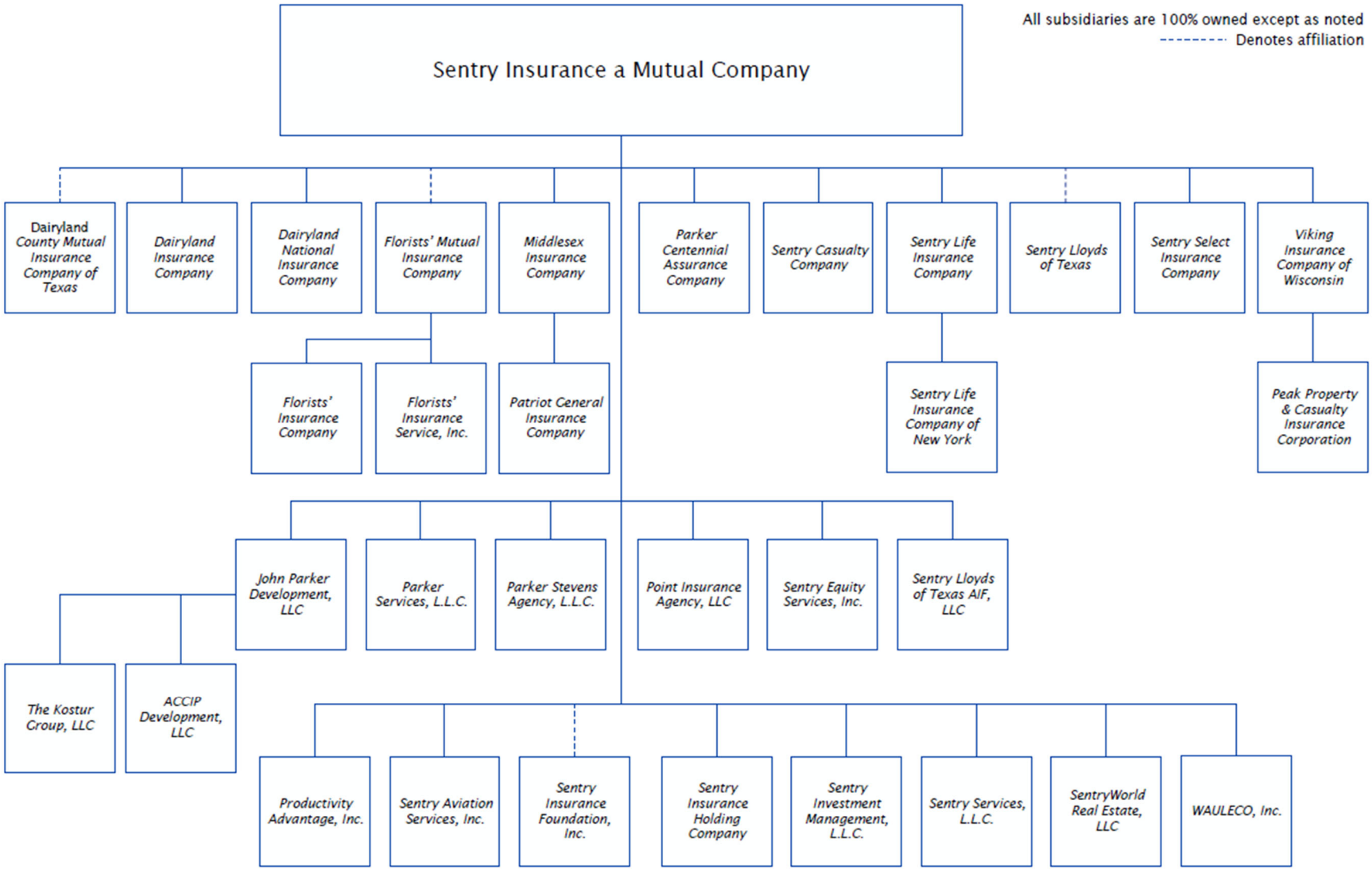
C.5 Insurance Industry Data and Information

A&E benchmarking information compiled by AM Best using data through December 31, 2018

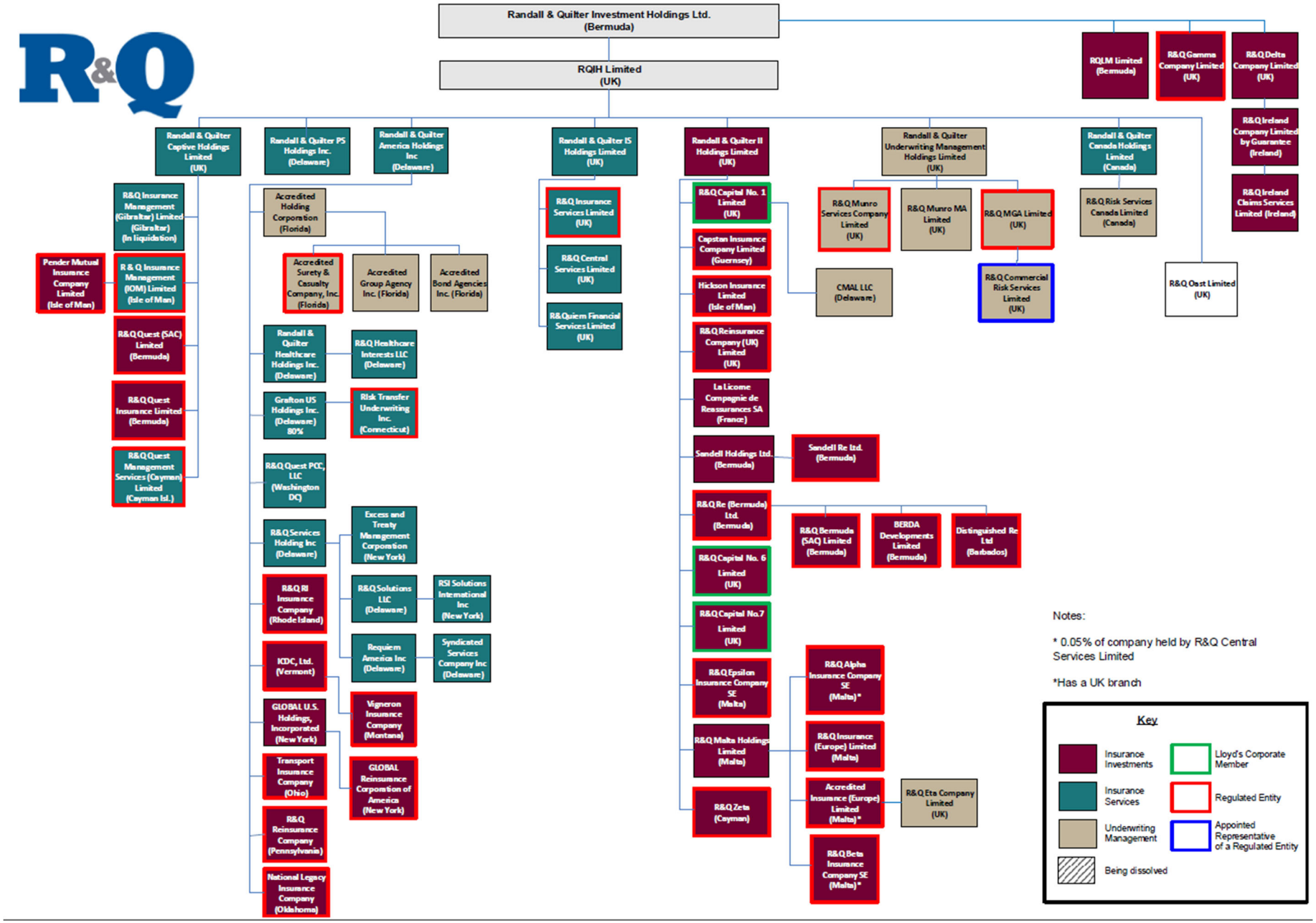
Industry loss reserve information for workers compensation and commercial liability lines based on SNL Financial data as of December 31, 2019 compiled by PwC

Appendix D: Organization Charts

D.1 Sentry



D.2 R&Q


Randall & Quilter Investment Holdings Ltd. (Bermuda)
RQIH Limited (UK)
RQLM Limited (Bermuda)
R&Q Gamma Company Limited (UK)
R&Q Delta Company Limited (UK)
R&Q Ireland Company Limited by Guarantee (Ireland)
R&Q Ireland Claims Services Limited (Ireland)
Randall & Quilter Captive Holdings Limited (UK)
Randall & Quilter PS Holdings Inc. (Delaware)
Randall & Quilter America Holdings Inc (Delaware)
Randall & Quilter IS Holdings Limited (UK)
Randall & Quilter II Holdings Limited (UK)
Randall & Quilter Underwriting Management Holdings Limited (UK)
Randall & Quilter Canada Holdings Limited (Canada)
R&Q Insurance Management (Gibraltar) Limited (Gibraltar) (In liquidation)
Pender Mutual Insurance Company Limited (Isle of Man)
R & Q Insurance Management (IOM) Limited (Isle of Man)
R&Q Quest (SAC) Limited (Bermuda)
R&Q Quest Insurance Limited (Bermuda)
R&Q Quest Management Services (Cayman) Limited (Cayman Isl.)
Accredited Holding Corporation (Florida)
Accredited Surety & Casualty Company, Inc. (Florida)
Accredited Group Agency Inc. (Florida)
Accredited Bond Agencies Inc. (Florida)
Randall & Quilter Healthcare Holdings Inc. (Delaware)
R&Q Healthcare Interests LLC (Delaware)
Grafton US Holdings Inc. (Delaware) 80%
Risk Transfer Underwriting Inc. (Connecticut)
R&Q Quest PCC, LLC (Washington DC)
R&Q Services Holding Inc (Delaware)
Excess and Treaty Management Corporation (New York)
R&Q Solutions LLC (Delaware)
RSI Solutions International Inc (New York)
Requiem America Inc (Delaware)
Syndicated Services Company Inc (Delaware)
R&Q RI Insurance Company (Rhode Island)
KDC, Ltd. (Vermont)
Vigneron Insurance Company (Montana)
GLOBAL U.S. Holdings, Incorporated (New York)
GLOBAL Reinsurance Corporation of America (New York)
Transport Insurance Company (Ohio)
R&Q Reinsurance Company (Pennsylvania)
National Legacy Insurance Company (Oklahoma)
R&Q Insurance Services Limited (UK)
R&Q Central Services Limited (UK)
R&Quiem Financial Services Limited (UK)
R&Q Capital No. 1 Limited (UK)
Capstan Insurance Company Limited (Guernsey)
Hickson Insurance Limited (Isle of Man)
R&Q Reinsurance Company (UK) Limited (UK)
La Licorne Compagnie de Reassurances SA (France)
Sandell Holdings Ltd. (Bermuda)
Sandell Re Ltd. (Bermuda)
R&Q Re (Bermuda) Ltd. (Bermuda)
R&Q Bermuda (SAC) Limited (Bermuda)
BERDA Developments Limited (Bermuda)
Distinguished Re Ltd (Barbados)
R&Q Capital No. 6 Limited (UK)
R&Q Capital No.7 Limited (UK)
R&Q Epsilon Insurance Company SE (Malta)
R&Q Malta Holdings Limited (Malta)
R&Q Zeta (Cayman)
R&Q Alpha Insurance Company SE (Malta)*
R&Q Insurance (Europe) Limited (Malta)
Accredited Insurance (Europe) Limited (Malta)*
R&Q Eta Company Limited (UK)
R&Q Beta Insurance Company SE (Malta)*
R&Q Munro Services Company Limited (UK)
R&Q Munro MA Limited (UK)
R&Q MGA Limited (UK)
CMAL LLC (Delaware)
R&Q Commercial Risk Services Limited (UK)
R&Q Risk Services Canada Limited (Canada)
R&Q Oast Limited (UK)
Notes:
* 0.05% of company held by R&Q Central Services Limited
*Has a UK branch
Key
Insurance Investments
Insurance Services
Underwriting Management
Being dissolved
Lloyd's Corporate Member
Regulated Entity
Appointed Representative of a Regulated Entity

Thank you

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