

## **FAQ on proposal by American Family to form a mutual holding company**

*October 11, 2016*

*The following FAQ are designed to provide general information on American Family's plan to convert to a mutual holding company. Additional FAQ are included in the Policyholder Information Booklet sent to eligible voters in their proxy packets and posted on [www.amfamplan.com](http://www.amfamplan.com).*

### **What is American Family Insurance proposing with its conversion to a mutual holding company?**

American Family Mutual Insurance Company (AFMIC) has filed a plan to change its organizational structure with the Wisconsin Office of the Commissioner of Insurance. Under this plan, a mutual holding company would be created to become the new parent company over AFMIC, which would become a stock company 100 percent owned by the new mutual holding company, and all other American Family Insurance group subsidiaries.

A mutual holding company would provide American Family more flexibility to meet future customer needs, compete in the marketplace and preserve its tradition of mutuality – a company owned by policyholders, not investors.

Under the plan, AFMIC policyholders would relinquish their current mutual insurance company membership rights and receive membership rights in the mutual holding company.

Mutual holding company member status would also be extended to policyholders of two other American Family subsidiaries that underwrite property-casualty insurance products sold by American Family agents.

### **What is a mutual insurance holding company? Have other mutual insurance companies adopted this form of organization?**

A mutual insurance holding company is a legal entity organized under state law to serve as the parent company – that is, the controlling shareholder – of an insurance company that has been converted from a mutual company to a stock company.

In the mid-1990s, states began adopting laws on mutual insurance holding companies to address certain competitive disadvantages of the mutual insurance company organizational form, compared to a stock company. The laws addressed these disadvantages with the mutual holding company structure,

which preserved policyholder ownership and control of the organization, while allowing the mutual insurance company to convert to a stock company, subject to regulatory and policyholder approval.

Prior to the adoption of mutual holding company laws, the only means for a mutual insurance company to gain the flexibility and competitive advantages of a stock company was to “demutualize,” i.e., convert from a mutual company to a stock company owned by shareholders.

Mutual insurance holding companies were first made available under Wisconsin law in 1997. Ten of the 50 largest (measured by written premium as of Dec. 31, 2015) mutual life and/or property and casualty insurance organizations in the United States have adopted, and continue to operate in, the mutual insurance holding company structure.

### **Why is American Family pursuing a mutual holding company structure?**

American Family believes this change is in the best long-term interests of our policyholders. Our current organizational structure has produced a long history of success, including the introduction of new insurance products and systems, acquisitions and alliances that have allowed us to meet evolving customer preferences and provide other customer benefits.

Converting to a mutual holding company would allow us to meet customer needs in additional ways, including:

- Preserving our tradition of operating under the concepts and culture of a mutual insurance company, one that is owned by our policyholders and not outside investors. Under a mutual holding company structure, policyholders of AFMIC would retain their membership rights AND we would expand membership rights to policyholders of certain other subsidiaries – specifically to policyholders who purchase property-casualty insurance products sold by American Family agents. By doing this, we would help ensure policyholder ownership continues into the future.
- Creating additional flexibility to invest in and/or acquire non-insurance companies that could provide customer products and services that complement our insurance business. Examples include products that proactively protect customers from accidents and injuries, such as smart-home technology and distracted driving prevention.
- Positioning us with greater flexibility to acquire other mutual insurance companies. This would allow us to reach and serve more customers, while building our financial strength.

### **What membership rights do AFMIC policyholders have? How do they change with a mutual holding company?**

AFMIC Policyholders have the opportunity to vote for the board directors and certain major transactions, and share in certain distributions of cash or stock if the company is dissolved or demutualized, and would have equivalent rights under the new structure. Policyholders of subsidiaries

that underwrite American Family property-casualty insurance products sold by American Family agents--American Family Insurance Company and American Standard Insurance Company of Ohio-- would have the right to vote as members of the mutual holding company on the same basis as AFMIC policyholders.

**Would the changes in structure result in any changes to existing insurance policies?**

No. All existing insurance policies issued by the American Family Insurance group of companies would remain in full effect according to their terms. All group subsidiaries would continue to operate as they do now and expect to renew and issue insurance policies under the mutual holding company structure in the same manner as they do under the current structure.

**How will the conversion affect the service policyholders receive from their agent or the company?**

The service policyholders receive from their agent and American Family would be unaffected by the conversion. However, the conversion will give American Family more flexibility to offer products and services that provide proactive protection and set the company apart in the industry. It would also extend member status to policyholders of subsidiaries that underwrite American Family property-casualty insurance products sold by American Family agents.

**Does American Family plan to sell stock following the mutual holding company conversion?**

Even though American Family would have the ability to sell stock after the proposed mutual holding company conversion, it has no plans to do so. If American Family decided to sell stock in the future, it would require approval of the company's board of directors, Wisconsin insurance commissioner and members of the new holding company.

**Would anyone at American Family – executives, board members, agents or employees – receive additional compensation or benefits in any way from this change?**

Nobody at American Family would receive any additional compensation, stock or benefits as a result of this change.

**What would the leadership structure of the new holding company look like?**

The board of directors and officers of the holding company would be the same as the board of directors and officers of AFMIC prior to the change.

**Who is eligible to vote on the mutual holding company plan?**

Eligible voters include existing policyholders of AFMIC as of Sept. 30, 2016. Each named insured on an AFMIC policy will have one vote and receive their own proxy. Eligible voters will have one vote, regardless of the number of AFMIC policies they have. Customers who only have policies issued by other American Family subsidiaries are not eligible to vote on the plan.

**What question is put before the eligible voters?**

Eligible voters have the choice of voting “FOR” or “AGAINST” the plan, including certain amendments to the Articles of Incorporation of AFMIC. The board of directors of AFMIC unanimously recommends members vote “FOR” the proposed plan.

**How will the vote occur?**

American Family will mail eligible voters a packet of information on the plan and a proxy to vote on the plan beginning on Oct. 11, 2016.

Eligible voters can register their vote by marking, signing and returning the proxy by Dec. 2, 2016 or by voting in person at a special policyholder meeting on Dec. 7, 2016, 2 p.m. CT, at American Family’s corporate headquarters, 6000 American Parkway, Madison, Wisconsin, 53783.

**When will the proposed mutual holding company conversion be completed, if all conditions are satisfied?**

Provided the plan has been approved by the Wisconsin Office of the Commissioner of Insurance and by eligible policyholder-voters, it is expected the mutual holding company will be formed on or about Jan. 1, 2017.

**How can I submit questions and comments on the conversion?**

American Family policyholders with questions about the plan can submit them by calling (866) 521-4219. For more information, they can visit [www.amfamplan.com](http://www.amfamplan.com).