



Honorable Benjamin M. Lawskey
Superintendent of Financial Services
New York State Department of Financial Services
One State Street
New York, NY 10004

RE: SBLI USA ("SBLI") Demutualization Application

Dear Superintendent Lawskey:

As a policyholder of the captioned insurer, I wish to express the following concerns and objections to the pending application to convert SBLI from a mutual insurer to a stock insurance company:

- a. The proposed consideration to be paid to policyholders of \$36 million grossly understates the fair value of SBLI, which reported a statutory net worth of \$92.2 million at June 30, 2014.
- b. The Opinion of SBLI's financial advisor (Sherman & Company) references their reliance on various financial statements furnished by SBLI including the Quarterly Financial Statement as of June 30, 2013. On page 35 (all page references are to the material furnished by SBLI to policyholders) Sherman specifically references SBLI's statutory value as of June 30, 2013 (namely \$79.0 million). However, as noted above SBLI's net worth has increased materially since June 30, 2013 and any fairness opinion should be updated to recognize the fact that SBLI's statutory net worth increased by \$13.2 million, a 17% increase, during the twelve month period ending on June 30, 2014.
- c. Page 6 states that one of the underlying assumptions for the continuation of the 2013 dividend scale is a portfolio earnings rate of 4.6%, but the present rates are lower than 4.6%. Based upon this admission, the continuation of the current dividend scale can not be maintained. I was unable to locate any reference to the current portfolio earnings rate, but the 4.6% assumption should be adjusted to reflect the current earnings rate.
- d. Page 13 sets forth various steps taken by the Board of Directors before opting for the Merger Agreement. However, these steps appear to be very limited. For example KPMG only solicited proposals for a "business combination transaction" and these solicitations were conducted in year 2011 and prior. There is no indication that the Board pursued any other ideas (such as the sale of the closed book to a third party) and the Board took no further action to address SBLI's problems until the Board was contacted by Prosperity in March 2012, with a proposal for a sponsored demutualization. It would appear that the Board took little or no action to

- ascertain the best possible solution for SBLI's problems and that it did not adequately fulfill its responsibilities to protect policyholders and the public.
- e. The application states that the cost of demutualization (estimated to be \$4 million) will be fully borne by policyholders. However, NYIL Section 7312(d)(4) states that all costs or expenses of a proposed reorganization shall not be borne by the mutual insurer unless the Superintendent determines that it is in the policyholders' interest to waive all or part of this condition. Assuming the Superintendent makes such a determination, then all expenses should be reviewed to insure that such expenses are solely related to the cost of conversion and do not include any expenses related to the Merger Agreement or the Application to Acquire Control.
 - f. While not directly related to the captioned application, I note a complete absence on the Department's Web Site to any notice regarding the pendency of the application or to the public hearing.

I trust that you and your staff will consider the foregoing concerns and objections in your review.

Very truly yours,

A black rectangular redaction box covering the signature of Charles S. Henricks.

Charles S. Henricks