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Mr. Robert Easton  
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New York State Department of Financial Services  
One State Street  
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August 22, 2014

RE: SBLI USA Demutualization

Thank you for giving me the opportunity to present my reasoning, at the public hearing held on July 21, 2014, on why New York State Department of Financial Services should assume control of SBLI USA Mutual Life Insurance Company (SBLI USA).

After listening to the reasons given by current and prospective management on why the demutualization is in the best interest of policyholders, and doing a little extra research on my own, I again concluded that demutualization of SBLI USA would be a mistake for policyholders. Actually, I believe the demutualization harms policyholders.

I have prepared the following calculation showing that SBLI USA is now in far better financial position than it was in the last five years. As a matter of fact SBLI USA should be a profitable company in 2014, capable of increasing policyholder dividends.

**SBLI USA is profitable: (See Chart Below)**

FIVE YEAR	OPERATING INCOME	NET REALIZED LOSS	NET INCOME (LOSS)
2013	14,116,335	16,334,904	(2,228,569)
2012	18,773,175	35,695,666	(16,922,491)
2011	20,209,689	22,298,984	(2,084,295)
2010	4,407,521	14,725,893	10,318,372
2009	20,194,505	13,205,467	6,989,038

At the Public Hearing, SBLI USA's President and CEO noted that while there exists, a small possibility of further write offs of securities; he believes that if there was a write off, the amount would be minimal.

From 2009 to 2013 SBLI USA realized security losses were over \$102,000,000; so it is reasonable to agree with the President's comments, because there is nothing left to write-off. As a matter of fact at SBLI USA's 2012 annual meeting I question the President as to why there was such a large loss in net income (\$16,992,491). His remarks were that "it's operating income that's important." For once, I agree with the President.

SBLI USA, having written off most of their non-performing or distressed assets (maybe in contemplation of demutualization) and is now a financially stable company. After suffering losses for many years with a corresponding reduction in policyholder dividends, the company's is now in a position to consider or actually raise our dividends. There also exists a real possibility that if the company decided to have a "run off" of assets, and reduce staff, cash flow would increase and could be directed to further increasing policyholders dividends. Furthermore, without demutualization we maintain our rights as policyholders.

Therefore, I believe, that acting in the best interests of the policyholder and the company the New York State Department of Financial Services should reject the demutualization plan. There is nothing to be gained by policyholders from the demutualization.

### **OTHER COMMENTS BEFORE THE ABOVE DISCUSSION**

**Policyholders suffer:** The Board of Directors and the management of SBLI USA agreed unanimously that the demutualization would be in the best interest of policyholders. This conclusion is misleading and illogical. If I understand this correctly; if policyholders agree to the demutualization they will then give up their rights as policyholders to participate in the management of the new SBLI USA. How is giving up our rights in our best interest?

**The Closed Block:** contains variable securities and exposes policyholders to potential risk of further declining dividends. There is no upside potential to policyholders. Besides, the 2013 dividend rate is probably the lowest amount in the last 20 years. Accepting this is like saying I am powerless and you can try to continue to take advantage of policyholders. How is giving up our ability to get a better dividend rate in our best interests. (On the other hand see discussion above SBLI USA will likely be able to increase dividends).

**Notifying Policyholders:** Newspaper ads were placed in Newark, Buffalo and NYC Newspapers. (NYS needs to update it laws and regulations to include internet publication). Did SBLI USA check to see where policyholders lived? I would venture a guess that there are more policyholders in the West Palm Beach / Ft. Lauderdale FL, area than there are in Buffalo, NY.

**Why should SBLI USA demutualize:** From 2002 to 2014 management and the employees at SBLI USA received over a quarter of a billion dollars in wages and salaries. Why would senior management give up such a great position, especially when you realize that after 2010 SBLI USA stopped writing new policies; now there is not much work to do except receive premiums and pay dividends. The question that has not been asked or answered is the severance package to be received excessive, based on the initial excessive salaries received.

**The Board of Directors** is not operating in the best interests of policyholders and is not independent. Therefore the demutualization plan is invalid. (See previous correspondence).

**Same old business model:** According to testimony given by Mr. Matt Popoli of Prosperity Insurance if the demutualization is approved, Prosperity will seek to get A.M. Best to restore the insurance rating for the new SBLI USA and begin to sell life insurance through banks and insurance agencies. This is the same (unsuccessful) business model used by SBLI USA. If the previous business model did not work for SBLI USA why should it work for Prosperity?

The (illogical) question policyholders may be asking is can new SBLI USA (Prosperity Life Insurance) succeed where old SBLI USA failed. Even if it succeeds there is no benefit to

policyholders. We go back to the same unanswered question, why does management think is good for us to demutualize?

The parties involved may have complied with all the legal requirements for the demutualization, but that have not been able to demonstrate or give a reason why the demutualization is good for policyholders.

Hopefully, you agree with my discussion, that demutualization harms, more than helps policyholders, and therefore is not in our best interests.

Very truly yours,

Richard Hoffman

cc: Michael Maffie  
Peter Dean