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RECEIVED
Corporate & Financial Regulation

AUG 19 2013

Pennsylvania
Insurance Department

August 13, 2013

VIA E-MAIL AND FIRST CLASS MAIL

Stephen J. Johnson, Deputy Insurance Commissioner
Commonwealth of Pennsylvania
1345 Strawberry Square
13th Floor
Harrisburg, PA 17120

**Re: Form A Statement Dated March 20, 2013 (the "Form A")
Regarding the Acquisition of Control of Atlantic States Insurance
Company, a Pennsylvania insurance company and wholly owned subsidiary of
Donegal Group Inc. ("DGI") Gregory Mark Shepard ("Shepard")**

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Dear Mr. Johnson:

On August 1, 2013, Gregory Mark Shepard filed Amendment No. 11 to his Schedule TO with the Securities and Exchange Commission, and an accompanying press release. Both documents reported that Shepard had allowed the hostile tender offer (the "Tender Offer") by which Shepard had sought to purchase 962,636 shares of DGI Class B shares for \$30.00 per share to expire. Shepard's abandonment of his Tender Offer confirms the April 2013 recommendation of DGI's Board of Directors made to the holders of DGI Class B common stock that Shepard's Tender Offer was illusory. DGI communicated that same position to the Pennsylvania Insurance Department (the "Department"), the insurance regulators in the five other states in which DGI has subsidiaries domiciled and the Federal Reserve Bank of Philadelphia (the "FRBP").

With the termination of the Tender Offer, DGI believes that Shepard has also abandoned his original Form A. We note for the record that Shepard did not file his original Form A with the Department on a timely basis in violation of Section 1402 of the Pennsylvania Insurance Holding Companies Act, as amended (the "Act"). Shepard's recently filed purported "amendment" to his Form A that appears on the Department's public website also was not filed within the time Section 1402 requires. We reserve the right on behalf of DGI to comment upon the purported amendment after DGI has had an opportunity to review it.

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Turning to another matter, the July 19, 2013 letter from J. Victor Peterson to Robert E. Brackbill, Jr. (the "July 19 letter") purported to respond to the Department's letter dated June 19, 2013. The Department's June 19th letter was the Department's second round of questions and comments addressed to Shepard because Mr. Peterson's prior letter response to the Department dated April 25, 2013 was incomplete and misleading in several major respects.¹

For the Department's convenience, we have numbered our comments as to the July 19 letter so that our paragraphs numbers correspond to the paragraph numbers Mr. Peterson used in the July 19 letter.

3. The Department asked Shepard to discuss the conflict between his statements in the Form A, the Tender Offer and his press releases regarding his plans to merge DGI's insurance subsidiaries into another larger insurance company. Rather than addressing the Department's question, the July 19 letter response merely repeats Shepard's prior contradictory explanations and consistently refused to explain the conflict the Department noted.

11. DGI has been seeking public disclosure of Shepard's financial and biographical information on its own behalf as the target of Shepard's Form A and on behalf of its policyholders and the public. These DGI constituencies have a legal right to public access to such information. DGI specifically denies Shepard's baseless charge that it has been seeking public disclosure of this relevant information to impede the Tender Offer ". . . on all fronts by attempting to embarrass him and make him vulnerable to identity theft and fraud . . .". DGI believes strongly that the public is entitled to all of the information Shepard filed with the Department. Shepard has never satisfied the heavy burden to justify redaction of the value of certain material assets listed on Shepard's financial statements that he filed with the Department.

Additional Item 2

The Department requested additional information regarding Shepard's involvement with Illinois Healthcare Insurance Company ("Illinois Healthcare") and an explanation of Shepard's involvement with an insurance company that the Illinois Insurance Department (the "Illinois Department") declared insolvent. Shepard's history with Illinois Healthcare and other companies discussed below provide ample evidence of Shepard's failure to meet the competence, experience and integrity standard set forth in Section 1402 (f)(v) of the Act.

The July 19 letter response includes an abbreviated, sanitized history of Shepard's involvement with Illinois Healthcare and a number of other affiliated insurance and other companies that Shepard controlled, including American Union Life Insurance Company ("AULIC"), American Union Insurance Company ("AUIC") and Illinois HealthCare. The July 19

¹ Although Shepard has abandoned his tender offer, he continues to circulate plans to gain control of DGI. Therefore, these comments remain relevant.

letter attributes the insolvency of Illinois Healthcare to the decision by the State of Illinois not to enroll its Medicaid members in managed care, losses and expenses AULIC and Illinois Healthcare incurred after AUIC sold Union Auto Indemnity Company and its property and casualty operations on January 1, 1997, and cost shifting/adverse selection in the 1990's from public plans to the indemnity plans AULIC and Illinois Healthcare sold. DGI believes that the Department should carefully scrutinize the accuracy and completeness of those reasons that Shepard has asserted. Moreover, as the driving force behind Illinois Healthcare and its business plans, Shepard cannot disclaim responsibility for the failure of Illinois Healthcare, particularly to the extent that it involved transactions with other companies under Shepard's control.

The July 19 letter caps off Shepard's attempted explanation of Illinois Healthcare's insolvency and liquidation with nonchalant statements that "insurance insolvencies happen" and that "policyholders are not hurt." These views alone warrant disapproval of Shepard's Form A and other requests by Shepard of the Department. In the case of Illinois Healthcare's insolvency and the Illinois Life and Health Insurance Guaranty Association's assumption of its policyholder obligations, Shepard's conclusory assertions that no policyholders were hurt is not a truthful statement. In 2000, when the Circuit Court of Cook County declared Illinois Healthcare insolvent, the Illinois Life and Health Insurance Guaranty Association Law ("GA Law") provided a \$300,000 coverage limit with respect to health insurance benefits assumed for any one life. A policyholder above the \$300,000 limit had no coverage or protection. Moreover, under Section 531.09(8) of the GA Law in effect in 2000, other member insurers were permitted to factor into their rates and policyholder dividends the amounts reasonably necessary to meet their GA Law assessment obligations. Therefore, Illinois Healthcare's insolvency adversely affected its policyholders as well as other insurance companies domiciled in Illinois and their policyholders.

The July 19 letter closes with two pages of accolades about Shepard's various real estate activities, attendance at charitable fundraisers, gifts and hospitality for his 40th high school reunion. None of this information is relevant to the Department's consideration or its review of Shepard's Form A as purportedly amended and Shepard's other requests of the Department.

Shepard's business history, including, but not limited to, his regulatory record with respect to Illinois Healthcare, AULIC, AUIC, and his other insurance company affiliates, demonstrate Shepard's cavalier approach to the reasonable requirements of the Illinois Insurance Department. His direct responsibility for Illinois Healthcare's insolvency and liquidation also stand in sharp contrast to DGI's excellent business and regulatory record.

Donegal Mutual Insurance Company ("DMIC") commenced operations in Pennsylvania in 1889 and is the parent of DGI. DMIC and DGI's insurance subsidiaries conduct business together as the "Donegal Insurance Group". The Donegal Insurance Group has a well-deserved record of excellent service to its policyholders and has built a solid history of proactive compliance with the Department and the insurance regulators in Iowa, Maryland, Michigan, Wisconsin and Virginia which are the states of domicile of other Donegal Insurance Group members. In addition, the

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Donegal Insurance Group enjoys a prominent, favorable reputation in the property and casualty insurance industry and has had an A.M. Best rating of A (Excellent) for many years.

DGI respectfully submits based upon Shepard's historical insurance background and other factors we have described on behalf of DGI in our prior correspondence with the Department, that Shepard does not have the requisite competence, experience and integrity to warrant the Department's approval of Shepard's currently pending Form A.

Respectfully submitted,



Robert L. Pratter

RLP/lmb

cc: Robert E. Brackbill, Jr.
Jodi Frantz, Esquire
J. Victor Peterson, Esquire
Donald H. Nikolaus
Frederick W. Dreher, Esquire