



Re: **Canal Insurance Company
Communication Update – Week 5
Assumption of Liability Policy**

October 31, 2017

Dear John and Derek,

Consistent with our earlier communications and commitment, Canal has arranged an Assumption of Liability (“AoL”) coverage option (“AoL option”) for existing and new Canal policyholders with State National Insurance Company, Inc. (“State National”) (A IX, Stable AM Best rating).

It is important to pause and distinguish this arrangement from traditional cut-thru or fronting alternatives. The State National solution is a master policy providing protection against the extremely remote possibility of Canal being declared insolvent by the South Carolina Insurance Department. Highlights of this new arrangement are as follows:

- Insurance policies will continue to be written and serviced by Canal Insurance Company or, where applicable, Canal Indemnity Company.
- The AoL option will be made available via a master policy issued by State National. Canal policyholders purchasing this option will receive a certificate evidencing coverage under the State National master policy.
- The AoL option is available for both mid-term and anniversary requests.
- The charge for the AoL option will be handled by a direct fee to minimize expenses for this additional (theoretically redundant) protection.

The Canal team has learned a great deal from the initial response to the A.M. Best Rating announcement and our direct communication strategy with agents, insureds, shippers, freight brokers, and excess markets. The value of a direct, proactive, and fact based dialogue with insureds and the marketplace has been affirmational. Despite commercial insurance industry trends toward commoditization and “check-box” decision making convenience, it is reassuring to find the majority of Canal insureds and business partners sufficiently astute to look beyond the optics of the recent rating change to focus on our long term commitment to motor carrier insurance, our exceptional balance sheet strength and our client centric value proposition.

Please receive this alternative AoL option against this backdrop of considerations. We will continue to be resolute in the support and transparency offered to our insureds and



partners, and independent of the State National optional Assumption of Liability arrangement, Canal remains one of the strongest and most committed insurance carrier options in the transportation market. We look forward to serving your current and future needs.

Best Regards,

A handwritten signature in blue ink, appearing to read "Paul W. Brocklebank".

Paul W. Brocklebank
President and Chief Executive Officer